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CRISIS IN THE RURAL ECONOMY AND ITS EFFECT ON SMALL BUSINESSES

ORIGINAL

HEARINGS

BEFORE THE

SUBCOMMITTEE ON EXPORT OPPORTUNITIES AND SPECIAL SMALL BUSINESS PROBLEMS

OF THE

COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

KANSAS CITY, MO, JUNE 29 AND WASHINGTON, DC, JULY 30, 1985

Printed for use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE
53-238 O WASHINGTON : 1986

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CRISIS IN THE RURAL ECONOMY AND ITS EFFECT ON SMALL BUSINESSES

SATURDAY, JUNE 29, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON EXPORT OPPORTUNITIES AND
SPECIAL SMALL BUSINESS PROBLEMS,
COMMITTEE ON SMALL BUSINESS,
Kansas City, MO.

The subcommittee met, pursuant to notice, at 10 a.m., in room 140, Federal Building, 601 East 12th Street, Kansas City, MO, Hon. Ike Skelton (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN SKELTON

Mr. SKELTON. Good morning.

My name is Ike Skelton. I am the chairman of the Small Business Subcommittee that is holding this hearing.

We are meeting in the Federal Building here in Kansas City.

Congresswoman Jan Meyers will join us later. She will be a bit late because of an earlier speech commitment that she had.

I believe we have four panels today. We will ask the panel witnesses to please make their presentations from 5 to 10 minutes in length; then we will be open for questions.

I would like to first welcome you to this hearing held by the Small Business Subcommittee.

Today we will address an issue which is very critical and important to the well-being of our Nation. There is a crisis in our rural economy. The structure of farm-supported small communities will change dramatically in this decade. They are a culture that has served this country well since the days of Thomas Jefferson.

The family farms which surround small towns and which are linked together by highways and railroads provide a strong network which, when laid over our land, bound this country very tightly together. This network was a base for exploring and developing territories and States. The rural, small-town way of life in and of itself helped teach our children moral and religious values, helped instill the great work ethic, and demonstrated the value of community pride and achievement. At the core of this community, in addition to the church, were banks and stores and a host of businesses that provided needed goods and services to the farmer or rancher. In our country, each depends on the other.

For good or ill, it is a fact that this network is now unraveling. Our tax laws, for example, tend to encourage corporations or wealthy individuals to purchase farms to shelter income. Arguably

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their incentive to be supremely efficient and obtain the best price is not as keen as an individual farmer whose livelihood derives solely from the farm.

Also, interest rates remain at unprecedented highs for the fifth straight year while oversupply has depressed commodity prices. The U.S. Department of Agriculture has predicted that net farm income will decline in 1985–86 in spite of record crop production. The result is that a farmer cannot afford to purchase land outright and can no longer earn enough from the land to pay off a loan if he is lucky enough to qualify for one. We are already seeing the outmigration of young men and young women who might have ably carried on the farming tradition if there had been a place for them.

So our record crops, which are due, in part, to incredible technological advances, and which should be good news, are instead hurting the community. We have created an expensive oversupply that can't be given away and which the Government's most innovative efforts have not yet resolved.

Neither should record crops be confused with the ability to dominate world markets as we once thought. On the contrary, the United States has seen its exports decrease annually. Our market share of wheat, soybeans, and feed grains has dwindled consistently. Chase econometrics recently reported that the United States simply may not be able to compete on the world market. Argentinian soybeans, for example, sell for $2 per bushel lower than American soybeans, even after you adjust for the high dollar and add in export taxes and shipping costs.

The plight of the farmer and the present danger to our rural economy is receiving less attention than it deserves. The plight of the businessman and businesswoman who depend directly or indirectly on the farmer has received none whatsoever. But their situation is just as precarious. Fertilizer dealers estimate that they have lost $2 billion in sales over the last 2 years. In 1984, delinquent farm production loans at commercial banks reached almost $3 billion. Annually, 800 farm equipment dealers are declaring bankruptcy because they either cannot make sales or they cannot collect from debt-ridden farmers.

It is the purpose of this hearing to put on record what the effect of the rural economic crisis has been on farm related small businesses here in the Midwest, and perhaps to discover what the Government response to the problem could or should be.

In the last analysis, it should be up to the rural citizen to take a hand in helping to decide the fate of rural America.

This is why we are here today.

I appreciate so very much the witnesses who have agreed to testify and to tell us for the record their thoughts and their suggestions and how this farm situation is effecting rural America. We will take this back to the full committee.

Again, I thank you so much for being with us.

At this time, we will call on panel No. 1. The first speaker is Hon. Pat Danner, a State senator from the 12th District of Missouri. Next will be Clyde Jones of the Mohawk Equipment Co., followed by M.L. Anson and Joseph Anson from Anson Implement Co. in Higginsville.

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I would ask that all four of you come forward and take your seats.

We will ask Hon. Pat Danner to be our first witness.

We appreciate your joining us today.

TESTIMONY OF HON. PAT DANNER, STATE SENATOR, 12TH DISTRICT, SMITHVILLE, MO

Ms. DANNER. Thank you, Congressman Skelton. It is my pleasure to be here. I would like to make just a few comments. It will not take me an extensive period of time. I think we need to talk about first what our problem is, that is, that I think in this Nation something is badly out of sync in the agricultural economy when a farmer can produce enough to feed 75 people and not have enough money to feed his own family. We know that problem is with us here in the Midwest. A recent FmHA study has shown that there are more foreclosures in Missouri than any other Midwestern State. I want you to know that in the 12th District of Missouri the problems are even worse than in the entire State as a whole. A recent survey by the Missouri State Department of Agriculture shows us that from January to March 1984 we had foreclosures that increased in 1985 from the 1984 figure 43 percent. Then in the 12th District it was an increase of 71 percent in 1985 over 1984. These are foreclosures and bankruptcies. That is one of the problems we are suffering in northwest Missouri. For example, last year we had a drought that followed a flood. Our farmers in many instances planted two crops last year and yet produced nothing.

So we are going to have to have this year a better price for the crops that we have raised and are raising. Things are looking very good for us right now in the 12th District but the one question, the one problem, that my farmers mention to me again and again and again are the prices. These prices are inadequate to cover the cost of production. All of this does spill over into the agribusiness community.

One of the counties that I represent—and I believe, Congressman, you might have represented Ray County at one time.

Mr. SKELTON. I sure did. I was then a State senator.

Ms. DANNER. That is true.

Ray County is in danger of having no farm implement dealers whatsoever, which is absolutely unbelievable when you realize it is one of the most productive agricultural counties in our State. We are down now at the present time to one farm implement dealer in Ray County. That dealership is for sale and they have not found a buyer at this point in time. If they don't find a buyer, we will have no implement dealer in Ray County.

I have spent a lot of time traveling in the district in my off-session and sometimes during on-session. I am the inveterate consumer. I bring home everything from smoked meats to ceramic jack-o-lanterns from stores in my district. It is so distressing and touching to go out there 6 months or 1 year after you have been there on a previous visit to find a store that you very much enjoyed visiting, a merchant that you enjoyed working with, is no longer in business. When farmers don't have enough money to spend for the necessities, they certainly don't have enough money to spend for

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silk flowers or a host of other things in the small gift shops and other businesses.

Another consideration or concern that we have is what the erosion in farm value is going to mean, not only in purchasing power for agribusiness but what is it going to mean to the political subdivisions when there are fewer tax dollars coming into a community. It is going to mean less protection, for example. We will have a sheriff, but how many deputies will we be able to afford? We are talking about a ripple effect.

You also mentioned this drain of young people from the rural areas. People are investing money in their education but they do not have a return on their investment, so to speak, of having those young people stay there and become members of the community, both producing and consuming members of the community.

We are talking about not only will farmers be able to pay taxes to support these businesses in these communities but they will be paying less taxes.

The value of farmland in Missouri has fallen, I believe, something like 38 percent in the past few years. So there is a very real multiplier effect in this problem that we face.

Having worked with Congressman Skelton, I know that one of the real problems he faces, and members of this committee face, is the lack of knowledge and sensitivity on the part of some of the more urban Members of Congress. I well remember some years ago having a visit from the New York City Director of Consumer Affairs. She visited northwest Missouri and she was amazed to learn that one had to milk cows 7 days a week. She did not realize that you had to milk them on weekends and holidays. Now, we find that absolutely inconceivable. By the same token, this woman had never in her entire life seen a pig. So these people really don't relate to the farm economy.

I think that many of us here who are older are products of a farm, and, if not, at least we knew someone who lived on a farm, our grandparents, aunts, uncles, and we visited them. Many of the people we are dealing with today who are decisionmakers have never been on a farm. They have no concept of it.

I have stood in the back of the chambers of the Missouri Senate and have had Senators from the urban areas telling me there were no problems, that the only problems in the rural areas are with farmers who are marginal farmers. That is not true. The marginal farmers have been gone for a long time in rural Missouri. We are talking about the farmers who are mature farmers and who have been at it a long time. If they can't make a living and if they can't produce, then they can't support agribusiness, whether it is a farm implement dealer or whether it is a host of other things. Sometimes shoe stores and dress shops aren't classified as agribusiness, but in a rural community they are agribusinesses.

I think, and someone can correct me, but I think William Jennings Bryan said: "Burn our cities to the ground and then we will rebuild them, but destroy American agriculture and grass will grow in the streets of every city in our Nation." I would not like to think that is going to happen. I don't want to cry "wolf." We are not crying "wolf" in the rural areas, we are telling it the way it is. Things are bad in northwest Missouri.

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Mr. SKELTON. Senator Danner, thank you so much for being with us. For the record, Senator Danner, what is your home address?

Ms. DANNER. You do have it listed correctly. It is Smithville, MO.

Mr. SKELTON. Thank you. Our next speaker is Joe Anson.

TESTIMONY OF JOSEPH ANSON, ANSON IMPLEMENT, INC., HIGGINSVILLE, MO

Mr. JOE ANSON. Mr. Chairman and members of this subcommittee, my name is Joe Anson. I am secretary-treasurer of Anson Implement, Inc., Higginsville, MO. With me is my father, M.L. Anson, who is president of our business. We own a retail farm implement dealership in a rural community serving the American farmer.

Before making our statements, we would like to thank Congressman Skelton and other members of this subcommittee for inviting us to testify on this most serious situation that is taking place in the agribusiness economy.

We have a statement that we would like to make for the record, along with the testimony M.L. Anson will make on behalf of the National Farm & Power Equipment Dealers Association.

Mr. SKELTON. I will interrupt you and tell all the witnesses that if you have a prepared statement that, without objection, we will ask that that statement be placed in the record. You may wish to paraphrase it or shorten it so that it fits into the time limit.

Mr. JOE ANSON. It is brief and I will just continue.

Our company was started in 1901 by my great-grandfather, followed by my grandfather in 1919. My father grew up in the business and after returning from service in World War II he joined the firm in 1946. I am the fourth generation involved with the business, joining it in 1979, after working several years for a major farm implement manufacturer.

When I retire, which I hope is several years in the future, I am very concerned, as my father is, about the business being in a sound financial condition. Our Government should be as concerned as we are about the small businesses in the agricultural economy so that we can all look forward to a more promising future.

The farm economy is presently in regression. My father and I are continually searching for signs of improvement. At present we cannot find them. Our customers, the farmers, are facing a situation where the worth of what they produce has not kept up with the costs they are facing to produce their product. This has caused an environment where many farm equipment dealers are deep in red ink, and we personally know of many. Some of them have had to close, deep in debt, and there will be many more in the near future if the farm economy does not change and the farm implement dealer is unable to make a decent profit.

We are afraid that in the future many dealers who are good, solid businessmen will be quitting the business rather than to subsidize their businesses with their personal assets and savings. For many of our fellow dealers the current business conditions in agriculture are beyond control and they are just trying to hang on. The high cost of entering the farm implement business is so great it actively prohibits entry of "new blood" into the area.

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Cash-flow is difficult to maintain. Sales of complete goods have dropped up to 50 percent in the last few years and in some cases higher. Many dealers are making a profit of less than 1 percent of their total sales. They are not able to make the necessary capital improvements because of extremely low profits, and the changing farm economy requires improvements on an ongoing basis; for example, replacing shop equipment, required because of wear, is very expensive. Tool technology, trucks, bookkeeping costs, and improved building facilities is ongoing. Maintaining proper parts inventories and good service is an ever growing necessary expense. Dealers are also finding it more difficult to find and hire qualified personnel to serve agribusiness because they will not be able to afford it. The changing machinery technology has forced dealers to only hire highly qualified people, then spend money to educate them on a continuing basis.

All of this and the possibility of the elimination of investment tax credits could hurt complete goods sales. The interest prime rate has been coming down but some lending institutions have raised their interest rate on farm credit.

The abuse of the bankruptcy laws has forced many dealers to tighten their credit policies because of the way this law is set up. Along with repossessions, many dealers are forced to sell machinery at give-away prices. How long can implement dealers keep their doors open under these conditions?

We want to be optimistic. We believe that our Representatives in Government and our representatives in the agribusiness community can work together to solve these problems, and they can be solved if our Government hears our needs and addresses them.

Once again, we would like to thank you for the opportunity to testify today. We will be more than happy to answer any questions that you may have.

We hope that our testimony has helped in expressing our concern over the seriousness of the situation we are in. We would like to remind this subcommittee that agriculture is the backbone of our American economy.

Mr. SKELTON. Mr. Anson, we appreciate your being one of the panel members today.

I might mention that one of the saddest sights that a person can see in any small town is to see the small business storefronts boarded up because of the economic conditions in that rural area. It is terribly sad. The picture that you are painting is not a good one.

Mr. JOE ANSON. In Higginsville there are eight to nine businesses in the downtown business district that have closed.

My dad has something for you, too.

Mr. SKELTON. Yes; I was getting ready to call on him.

Mr. M.L. Anson.

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TESTIMONY OF M.L. ANSON, PRESIDENT, ANSON IMPLEMENT, INC., ON BEHALF OF NATIONAL FARM & POWER EQUIPMENT DEALERS ASSOCIATION AND WESTERN RETAIL IMPLEMENT & HARDWARE ASSOCIATION

Mr. M.L. ANSON. Mr. Chairman, members of the subcommittee, my name is M.L. Anson. I am president of Anson Implement, Inc. My business is a family run small business. With me today is my son, Joe Anson, who represents our fourth generation in the farm implement business in Higginsville, MO.

My dealership has been a member of the Western Retail Implement & Hardware Association since 1907. Today I will be testifying on behalf of this regional affiliate and the National Farm & Power Equipment Dealers Association. Our national Association represents more than 10,000 farm implement dealers throughout the United States and Canada who sell and service the equipment which keeps our farms operating today.

I want to thank the subcommittee for the opportunity to testify this morning on the difficulties which face farm implement dealers attempting to do business in the midst of the current credit crisis in the agricultural industry. I would like to touch briefly on a number of factors which we dealers believe are contributing to the difficult economic circumstances we are facing. I would then like to share with the subcommittee the results of a survey which was recently completed among our national membership which reflects the financial condition and the prospects of implement dealers nationwide.

In the 1970's, the American farmer could see unlimited prosperity down the road. A combination of Government programs and foreign demand for U.S. agricultural products provided a market, or at least a source of income, for almost everything that a farmer could produce.

However, a confluence of factors in the early 1980's has reversed the expectations of the American farmer. The grain embargo caused a restructuring of international markets for our agricultural products. Many foreign producers began competing with U.S. agriculture on a favorable basis. The results of years of research and assistance from the United States to farmers in lesser developed countries started to bear fruit as those who were our customers became our competitors.

High interest rates and declining inflation had a devastating impact on farmers who were encouraged to expand their operations. A reduction in Federal support programs created difficulties for those farmers who had expanded as well as those who began farming operations during the halcyon days of the mid to late 1970's.

Since the farmers are our customers, generally speaking, farm implement dealers have been faced with the same economic conditions. It goes without saying that if your customers are financially depressed, you are going to lose sales which you would have made in better times.

Although we have no statistics to support this conclusion, because we deal in durable goods, we have probably experienced more difficulty than the other so-called input agricultural business-

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es, such as seed and fertilizer sales. The farmer is quite capable of keeping a tractor or other piece of equipment in repair for an extended period of time when the money is not available to purchase a newer, more powerful and more productive replacement. The farmer is not unlike any other consumer in this regard. When the automotive industry was suffering a few years ago, the average age of an automobile on the road was constantly increasing.

Presumably the question in which this subcommittee is interested is whether the current credit crisis has affected the implement dealers. The answer to this is generally yes, but indirectly. The farmer, to the extent that he can qualify for credit, can purchase equipment through the financing divisions of the major manufacturers. He is not limited to the traditional sources such as banks, PCA's and FmHA, which have restricted the amount of credit available to the farmer. On the other hand, the farmer's financial condition itself can be, and frequently is, a limiting factor in acquiring credit from a manufacturer's financing company. The analysts in these companies look at the same criteria as banks and other lending institutions and will probably reach the same conclusion with respect to a particular farmer.

There is, however, a difference in the current practices of the more traditional lenders. On the one hand, Government programs have not provided as much funding and have not had the personnel necessary to quickly process outstanding loan applications, thereby limiting the farmer's access to funds. Many rural banks, on the other hand, have closed or have been rated by Federal and State agencies as problem banks. This has created a shortfall of commercial lending activity. Just as important, the small independent banks have become extremely cautious in their lending attitudes. They are examining the farmer's financial statement very closely and they are making loans on cold, hard facts rather than the reputation of the borrower.

This attitude is understandable in light of the exposure which many officers and directors have faced as a result of bank failures. Many of our dealers sit on bank boards and some of them have first-hand experience with the problems that result when a bank closes its doors. Frequently the bank directors become the target of Government investigations. The attitude of the banks, therefore, is a drastic departure from times past.

While it is important that the Federal Government deal with the immediate credit crisis which faces the farmer today, it is just as important that it consider the long-term outlook. In this regard, we would like to give you that view through the eyes of the dealers. Information has been compiled from more than 2,000 dealers in response to a survey which our national association made last year. In July 1984 a four-page questionnaire was mailed to 9,107 farm equipment dealer-members of NFPEDA doing business in the United States and Canada. Almost 25 percent of those dealers responded and the information which they provided gives a solid base of data from which to draw a profile of the typical North American farm implement dealership.

Better than 75 percent of the dealerships are owned by sole proprietors or family-owned corporations and partnerships. About 42 percent of the dealerships are operated by a second- or third-gen-

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eration of the founding family. A significant portion of the dealers, almost 30 percent, are relatively young, between the ages of 36 and 45. The importance of these statistics is that the dealer, like his customer, the farmer, operates his business through his family and family members continue to hold the business over the years.

The general financial condition of the dealer mirrors that of the farmers according to the survey. Slightly better than half, 57 percent, of the responding dealers are profitable. The reasons given for profitability by those dealers can be reduced to one common denominator, "sound management practices."

Diverting from our survey for a moment, I find as I talk to other dealers that they are painfully aware of the problems which the farmers are facing. They are quick to add that those farmers who exercise proper management of their operations are the ones who are succeeding. They also note that many of those in trouble are themselves responsible for their plight as opposed to being victims of circumstances. Among the dealers who are not making a profit, high interest rates, low sales, and competition are the major factors noted.

Looking to the future, almost 30 percent of the dealers took a pessimistic attitude. In many ways, the outlook of the dealers tracks the demographics of the producers. Our members foresee fewer and larger dealerships in the coming years. The same is true of the farm itself. For the latest year in which statistics are available, USDA shows that 13 percent of the farms produced almost 74 percent of the cash receipts. That means that 87 percent of the farmers are outside the mainstream of agricultural production in North America. It also means that the income necessary to purchase equipment is not available to the overwhelming majority of the farmers.

Based upon USDA statistics as to the number of farms with real purchasing power, and our own internal estimates as to the number of farms which one dealer can service, we have reached the conclusion that there are only 5,000 dealers needed in the United States. Today, however, there are 8,800 dealers giving us an excess capacity of 3,800 or 43 percent of existing U.S. dealers. As a result, we find the dealers taking steps to expand into other areas such as lawn and garden or industrial equipment. They are adding or are considering adding new tractor lines in order to become more competitive. Dealers are convinced that the "good old days" of the 1970's are gone forever and that we are in a time of survival of the fittest.

Like farming, our industry is in transition. We do not mean to imply that 43 percent of the dealers will go out of business. Nor is NFPEDA willing to simply write them off. Rather, having analyzed the current conditions, we intend to work with them to meet the challenges of a shrinking market in order to preserve the best possible dealer base to serve our customers, the farmers.

Once again, I would like to thank you for the opportunity to testify today. I will be happy to answer any questions which you may have.

Mr. SKELTON. After hearing your testimony, on reflection, I wish that every Member of Congress, especially those from large cities, could be here today to hear this. This is a real crisis. This is a re-

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flection of real trouble in small towns and rural America. It is kind of you to come forward and tell us about it.

Thank you.

Clyde Jones, please.

TESTIMONY OF CLYDE JONES, PRESIDENT, MOHAWK EQUIPMENT CO., TEMPLE, TX, AND PRESIDENT, FARM EQUIPMENT MANUFACTURERS ASSOCIATION

Mr. JONES. Mr. Chairman, my name is Clyde Jones. I am president of Mohawk Implement Co. of Temple, TX. I am here today representing the Farm Equipment Manufacturers Association as its president.

Mr. SKELTON. Do we have your address, Mr. Jones?

Mr. JONES. Yes, I think so. I don't know about my home address. I actually live in Belton, TX, which is a suburb of Temple.

The Farm Equipment Manufacturers Association is an international nonprofit trade association, representing 409 companies manufacturing specialized farm equipment. We are known as shortline manufacturers in the industry because we build a limited line of products. Most of us limit our lines to one or two lines of specialized equipment that fits specialized crops and such as that.

We are a small business. Our average FEMA member probably has sales of less than $3 million. Not over 4 percent of our membership has sales of $20 million. Many of those that had sales in excess of that back in the 1970's, many of them, as we will see later on, due to the conditions that have been alluded to here already this morning, their sales are way down.

In spite of the fact that we are a small business, our impact on the agricultural economy probably greatly outweighs the economic statistics. When you compare us with the major tractor companies, the economic statistics are not all that great.

Our impact on the agribusiness greatly exceeds what those figures would indicate due to the fact that most of the improvements and innovative things that are seen in the equipment business historically have come from the shortline manufacturer. In many cases, we started out as a farmer, and in many cases dealers. They saw a need for a product and marketed it successfully, and this great industry has grown up from there.

Many times equipment will be put on the market by shortliners and later on it will be adopted by some of the major producers.

Some of the specialized crops that would be very hard pressed without our services are peanuts, tobacco, citrus, fresh vegetables, nuts, dairy, sugarbeets, sugarcane; the list goes on.

Our headquarters in St. Louis has recently compiled a list of products put out by our members in the shortline industry as a whole. As you can see, we have them listed on several computerized pages. So it is a large segment of the industry.

Also, we make a particularly large impact on rural America. Most of our plants are located in rural areas. Oftentimes we are the largest employer in a community.

Since 1980, when our industry started going downhill, along with the general agricultural economy, we have estimated that FEMA members alone have lost 27,000 jobs, which is a 43.5-percent de-

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cline in employment. Of course we are not even speaking of the drastic loss of jobs by the major tractor producers.

To give you some illustrations of some of the things that have happened to some of our members, in Iowa we have one manufacturer who in 1980 employed 33 people and had sales of $2,340,000. By 1984 that employment had dropped to 23 with sales of $1,448,000.

In Nebraska we have a member who had sales of $10.3 million and had 152 people on the payroll in 1980. By 1984 their sales had dropped to $3.1 and they only had 62 people left.

In Wisconsin we have a firm that employed 89 people in 1980 and had sales of $6,266,999. By 1984 their sales had dropped to $3.6 million and their employment had gone to 56.

The list goes on.

In my own business, Mohawk Equipment Co., at our peak back in the 1970's we had, I think, a peak employment of about 156 people. As of today our total employment is down to some 35, 37 people. It may go lower.

So the short-line manufacturer is, of course, very much recognizing and very much feels the problem of the farmer and the dealer. We, too, are concerned about the number of dealers that are going out of business. We are deeply concerned because oftentimes we have credit problems because they go out of business and oftentimes with fewer dealers there are fewer dealers marketing our products.

One of the other things which we addressed—by the way, our formal statement has been previously supplied to you.

Mr. SKELTON. Yes; it has. As I mentioned earlier, the reporter will include all of the formal statements in the testimony. What you actually testify to here today will be separate and above it.

Mr. JONES. OK.

One of the additional things that concerns our membership is exports, as well as imports. Imported equipment is having a drastic impact on some of our members. I can particularly think of seeders, for example. One of our members is having a very tough time making it because of the imported seeders.

Exportwise. Exports have greatly been reduced. Of course we all know about the strong American dollar and some of the things that affect exports as well as imports, but one of our concerns on exports is that apparently even on our AID bids much of this equipment is being purchased from foreign manufacturers. Apparently there are instances where the specifications have actually been written favoring a foreign producer. This is something of great concern for us to see American tax dollars being directed to overseas manufacturers. We need all the help we can get. When this happens, this concerns us very much.

Mr. SKELTON. Mr. Jones, would your association be kind enough to provide us with the details of this?

Mr. JONES. Along with our statement, I have provided a letter from our own AMA which sets forth some specific details.

Mr. SKELTON. Thank you.

Mr. JONES. We will be happy to provide it to you.

Mr. SKELTON. Thank you very much.

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Mr. JONES. I guess, to sum it all up, we are deeply concerned. We feel that according to a recent survey the average shortline plant is now running at about 35 percent capacity. We are almost certain that unless things turn up pretty soon that at least 50 percent of our companies will be either absorbed by another company or will be forced to go out of business. There is simply too much capacity for the amount of equipment being sold and the present economic conditions for everyone to have a share.

Mr. Chairman, again I would take this opportunity to thank you for inviting us to appear here this morning. We will try to answer any questions you may have.

Mr. SKELTON. Thank you very much, Mr. Jones.

[Mr. Jones' prepared statement, with attachments, follow:]

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Prepared Statement of Clyde Jones, President, Mohawk Equipment Co., Temple, TX, and President, Farm Equipment Manufacturers Association

The Farm Equipment Manufacturers Association is an international non-profit trade association representing 409 companies manufacturing specialized farm machinery. Known as "Shortline" manufacturers because of the limited line of products built, they could all truly be classified as "small businesses." In 1984, 63% of these companies had annual sales under $5 million. One-third of these companies had annual sales between $5 million and $20 million and only 4% had sales in excess of $20 million.

While there are no known statistics as to exactly how many shortline manufacturers exist in the United States, an educated guess would place the number between 700 and 800. It's estimated that FEMA's members constitute approximately 80% of those producers who market their products on a national basis.

While the number of people employed by shortline manufacturers is dwarfed by the larger tractor producers, these smaller companies hold a far greater importance to the agricultural community relative to their size. Beside being an important source of employment within their given areas, traditionally new equipment innovations come from these smaller firms (i.e. conservation tillage, one-man hay handling systems, etc.).

Certain agricultural output (eg. peanuts, tobacco, citrus, fresh vegetables, nuts, dairy, sugar beets, etc.) is almost entirely dependent upon shortline products. The specialized manufacturer fills a niche within a given market that the major equipment producers, due to their need for a large volume, national market, are unable to fill.

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Shortline manufacturers are traditionally concentrated in rural areas, often times being the largest single employer in their given trade area.

Calendar 1979 would probably be classified as the last excellent year of farm machinery sales. More than $12 billion was spent on farm equipment in that year. Since then, a continual decline in sales has been experienced. In 1984, it's estimated that only $8.1 billion in sales was registered, almost a 33% drop from the peak in 1979.

During these years, the sagging agricultural economy has had a devastating effect upon the smaller manufacturer. As a specific example, in 1979 the average FEMA member-company employed 150 people. By 1984, that number had dropped to 86 employees. Multiplying the 415 members FEMA had in 1979, more than 62,000 jobs were created by those companies. From surveys completed in 1984, among FEMA members alone, a loss of 27,076 jobs occurred, a 43.5% decline in employment. That, of course, does not even include the drastic loss of jobs within the major tractor producers.

Because smaller manufacturers are heavily dependent upon sales close to "home," particularly hard hit are those companies located in the midwestern United States. As a specific example, employment in the farm equipment manufacturing and related industries in Reno County (Hutchinson), Kansas in 1980 totalled 3,687. By May of 1985, only 1,453 of those jobs remained. That's a 61% drop in the number of jobs directly relating to agricultural and farmstead equipment.

Similar horror stories can be told throughout the shortline manufacturing industry. Just a few examples tell the story:

Iowa: This manufacturer in 1980 employed 33 people and had sales of $2,340,000. By 1984, employment had dropped to 23 with sales of $1,448,000.

Nebraska: This manufacturer had sales of $10.3 million in 1980 and employed 152. By 1984, sales had dropped to $3.1 million and only 62 people worked for the firm.

Wisconsin: This firm employed 89 people in 1980 and had sales of $6,266,995. By 1984, sales had dropped to $3,671,248 and employment fell to 56.

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Tennessee: This shortline manufacturer had total sales in 1980 of $12,100,000 and employed 256 people. Sales in 1984 fell to $7,600,000 and employment dropped to 124.

Illinois: Sales of this manufacturer in 1980 were $32.6 million with 550 people employed. By 1984, sales had dropped to $13.9 million with just under 200 employees. Another Illinois shortliner had 1980 sales of $14.7 million and employed 272. In 1984, sales had dropped to $9.0 million with employment standing at 175.

Indiana: This company had 1980 sales of $3,000,000 and employed 56 people. By 1984, sales had dropped to $2,200,000 and employment stood at 42.

Calendar 1985 is starting out to be a worse year than 1984. In a just completed survey of FEMA's Board of Directors and Past Presidents, dollar sales for the most recent three months (March, April and May) are down a median of 20% compared with the same period last year. Unit production in that period is down 15%.

In a forecast issued by FEMA's Long Range Planning Committee in April, 1985, the concensus was that IF the agricultural economy does not begin a pickup shortly, one-half of all shortline manufacturers now in business will not exist in another five years. Typically, those firms which are not able to make it will either be acquired or merged into another, more viable company and the production moved to the surviving company's plant.

Recent surveys done by FEMA indicate that the typical shortline manufacturer is now operating at just under 35% capacity. Obviously, there is entirely too much capacity for the current level of sales. With such over capacity, shortliners are now in the process of "managing down" --- trying to make a profit on the available sales. Because much overhead is of a relatively fixed nature and since most shortline manufacturers operate out of a single manufacturing plant, cutting such overhead expenses is relatively difficult.

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That leaves one major expense item to cut --- labor. It's been an unfortunate fact of life over the past two years that the labor force within the industry has been cut drastically. Often employees with 20 to 30 years seniority have been discharged for lack of work. Companies have either had to cut back work weeks, work hours or take extended vacations.

Another recently reported phenomenon is the loss of key people to other industries. Such highly qualified managers and engineers, although still wanted by their employers, have seen better opportunities within other industries and are beginning to move on. While, within a major tractor company employing 35,000 people, the loss of a single engineer is no cause for alarm, within a shortline manufacturer, the loss of a talented chief design engineer can bring catastrophe.

The problem of U.S. farm equipment producers is threefold; lack of domestic sales, lack of export sales and increasing domestic competition against foreign producers.

U.S. farmers, as evidenced in much of the mass media, face a serious credit problem --- particularly those that rapidly expanded during the mid-'70's using as collateral inflated prices for land. With the current declining value of land, many borrowers are literally being forced from their farms or to sell capital equipment. "Fire sale" prices for used machinery are a real deterrent to new machinery purchases.

Why should a farmer pay $20,000 for a new piece of tillage equipment when, right up the road at auction, he can purchase a one year old model for one-third the price?

Farm cash flow today is being used to repay debt, not to buy new equipment to improve efficiency or expand operations. USDA estimated that as of January 1, 1985, 43,000 of the 679,000 family-size commercial farms (those with annual sales between $50,000 and $500,000) were technically insolvent. They owed more than their assets were worth and their debt represented 10% of the total farm debt. The number of such insolvent farms increased 43% over January, 1984.

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In that same study, an additional 50,000 farms representing 11% of the total farm debt, had debt to asset ratios between 70% and 100%, the percentages at which the Department assumes "extreme financial stress." Farms in this category increased 47% from January a year ago.

Finally, an additional 136,000 farms, owing 28% of the total debt, had debt to asset ratios between 40% and 70%, the percentages at which USDA figures that there will be a high likelihood of facing serious financial stress.

Summing up, over one-third of America's family-size commercial farms either face serious financial stress, have already arrived there, or are technically insolvent.

Putting this in perspective, the combined foreign debt of Argentina, Brazil and Mexico is only half the debt now faced by the American farmer. The foreign debts of Algeria, Egypt, India, Indonesia, Israel, Korea, Turkey and Venezuela must be added before matching the domestic farm debt in the United States.

A study by Iowa State University estimates that 360,000 jobs representing $7 billion in wages and salaries and nearly $29 billion worth of output have been lost since 1982 just in those industries dependent upon agriculture. Much of this loss, as indicated earlier, has been in the shortline industry.

The foreign market, by itself, has had a "double-barrel" effect upon small, specialized manufacturers. Not only, due to the highly inflated value of the dollar are we priced out of most foreign markets, but we are also facing heavily increasing competition in the domestic market from foreign competitors. Much of this competition, such as from Canada, France, Italy, and Great Britain, is highly coordinated among foreign firms --- some, it's suspected, is supported directly by their respective governments.

Most shortline producers export some of their equipment. In 1984, 74% of FEMA's members did some exporting. This was down from 80% just a year earlier.

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Traditionally, the U.S. has maintained a strong surplus trading position in farm machinery. In 1981, according to the U.S. Economic Research Service, exports hit a peak of $2.9 billion. Imports in 1983 stood at $1.55 billion, giving the United States a trade surplus of almost $1.4 billion.

Between 1981 and 1983, U.S. exports slipped dramatically to slightly over $2.0 billion. While imports between 1981 and 1982 also fell to about $1.2 billion, they recovered to $1.35 billion in 1983. In that year, the U.S. trade surplus was trimmed to only $667 million.

The majority of smaller manufacturers rely upon Export Management Agencies (EMA's) to assist with their export efforts. In effect, these EMA's act as non-stocking distributors.

Introduced into the record is a letter just received from our own EMA, Amico, based in Miami, Florida, which details many of the problems faced by smaller companies today when trying to sell in foreign markets. When trying to compete with foreign companies who are directly subsidized by their own governments, it becomes increasingly difficult for the smaller, U.S. manufacturer to compete.

What are the answers to the smaller manufacturers' problems? FEMA wishes it had all of the answers.

Without question, a healthy agricultural economy would alleviate many of these problems. A reformed Farm Bill which relies more upon market prices would seem to be a step in the right direction. With one out of five acres now being planted for export, it seems unreasonable that we should price our agricultural output out of this market through unrealistically high target prices and loan rates.

America's farmers must be able to compete on an international basis. This does not mean that we should take farm programs upon which farmers have relied upon for decades and simply throw them out of the window. A safety net must remain for some time. There, however, must be a gradual weening away from government reliance and a realization that some family farms are not going to be around a few years from now, before America's farms can, once again, become competitive.

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Secondly, our government must realize that, even among smaller manufacturers, worldwide competition is a fact of life. U.S. manufacturers can compete in an international market if the value of the dollar is brought down to something near its real worth and if we can compete in a fair market. It is our government's responsibility to assure that U.S. manufacturers compete in a fair world market.

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OFFICES
1190 N.E. 163rd STREET
NORTH MIAMI BEACH, FL U.S.A.

amico
ASSOCIATED MANUFACTURERS INTERNATIONAL CORPORATION

TEL. (305) 945-7523
TELEX 51-2346 AMICO NMIB
CABLE "AMINTCO MIAMI"

REPLY TO: POST OFFICE BOX 600-367
NORTH MIAMI BEACH, FLORIDA 33160-0367 U.S.A.

June 5, 1985

Mohawk Equipment Company
P.O. Box 3605
Temple, Texas 76501

Attn: Mr. Clyde Jones

Dear Mr. Jones:

We refer to a recent phone conversation concerning some of the problems we as U.S. exporters have faced in recent years. While some complaints are widely discussed and publicized, (i.e., the high cost of the U.S. dollar, political unrest, depreciation of major currencies, foreign exchange deficits, etc.) there are obstacles which may not be known to those outside the export industry.

What could be an excellent opportunity for U.S. exporters is our U.S. AID program, where millions of dollars are made available for the purchase of machinery and other commodities by developing nations. One would naturally assume that since U.S. tax dollars are being used for this project, U.S. manufactured goods would be supplied. The fact is, more than 150 countries are eligible to supply these goods, and they are broken down into four categories. 000, 941, 899 and 935. A list is enclosed illustrating our competition in these selected free world countries, and only when the Geographic Code 000 is deemed eligible do we not face stiff competition for benefiting from our own tax dollars.

We have enclosed several specification pages from recent tenders which may be of interest to you. Specifications actually have been drawn on foreign made machinery, brand names such as Kubota, British Standard are mentioned, virtually eliminating the award of contract to our U.S. suppliers.

Although we try to participate in all International Tenders, when we know we cannot compete because of the current high cost of the U.S. dollar, expensive shipping rates, high labor costs, etc., we do not even submit our offers. In addition to administrative costs, we must tender a 2% bid bond for the total value of any equipment bid, and these costs can add up to thousands each year.

Lack of financing has also been an hindrance to U.S. firms. While Export-Import Bank offers facilities to exporters to finance the overseas buyers through private U.S. banks at interest rates of 2% over the U.S. prime rate, (occasionally lower) foreign countries are giving direct subsidies to their manufacturers. By treaty, we and many other developed nations have agreed not to create such subsidies, as it is considered an unfair trade practice, it seems the only nation adhering to the terms of this agreement is the U.S.

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AMICO
P.O. BOX 600-373
NORTH MIAMI BEACH
FLORIDA, 33160 U.S.A.

Mohawk Equipment Company
June 5, 1985

Brazil offers direct government financing of up to five years at 8-9% per annum to the foreign buyer. Several European countries have established direct financing plans under the guise of "aid" and most offer tax incentives to their exporters, all of which allow them to be more competitive than we are. Ex-Im and AID have set up a similar program, but the applicable interest rates are still beyond those offered by competition and the purchase price receives no "subsidy" under our program as do the Europeans.

Foreign countries establish trade offices overseas in their embassies, in which the commercial officer can actually close a sale for a home country based manufacturer or exporter, whereas our own merely provide the name of the U.S. manufacturers to a potential client.

We believe that all exporters, and especially the smaller businesses face a long uphill battle, and we will require the cooperation and assistance of our government if we are to perform our valuable services in the best interest of all.

In closing, we would like to thank you for your concern in this most important matter, and if we can be of any further assistance to you, please do not hesitate to call.

Wishing you kindest regards, we remain

Very truly yours,
AMICO
Conrad Walser

CW;pc;deq
Enc.

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RECEIVED JUN 5 1985

A.I.D. Financed Export Opportunities

Issued By

DEPARTMENT OF STATE

Agency for International Development, Office of Business Relations

Washington, D.C. 20523 Area Code 703 235-1840

SBC	DATE	M/L
85-94	May 24, 1985	10-16-23

PLEASE READ ALL EXPLANATORY NOTES CAREFULLY.

A.I.D. has a policy of obtaining maximum possible competition for projects that it finances. All qualified contractors are encouraged to participate. A.I.D. will not finance any procurement in which boycott or other restrictive trade practices are applied.

All the information available, except as otherwise noted, has been reproduced herein. Questions or requests for additional details should be directed to the buyers (NOT TO A.I.D.), citing all reference numbers given. When cable addresses are given, cable bids are acceptable, but should include bidder's full name and address, and be followed by a confirming letter.

A geographic code number indicates the permitted source origin of procurement for each item. A listing of the countries included in each of the most frequently used geographic codes (000, 001, 002, 910 and 941) was published in A.I.D. SBH Number 81-5 and supplements. Suppliers who have not retained their copy of SBH 81-5 should request a copy by writing the Department of State, Agency for International Development, Small Business Office, Washington, D.C. 20523 or by telephoning 703 235-1840.

WHERE CATALOG NUMBERS AND/OR BRAND NAMES ARE USED, SUPPLIERS MAY QUOTE COMPARABLE PRODUCTS.

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Communications to A.I.D. concerning this publication must refer to the SBC number (located upper left) and item number concerned.

SUPPLIERS NOT FAMILIAR WITH GENERAL A.I.D. PROCUREMENT PROCEDURES SHOULD REQUEST AN INTRODUCTORY KIT FROM THE DEPARTMENT OF STATE, AGENCY FOR INTERNATIONAL DEVELOPMENT, SMALL BUSINESS OFFICE, WASHINGTON, D.C. 20523 TELEPHONE NUMBER: 703 235-1840.

LESOTHO

Country:	Lesotho
Authority:	USAID Agreement 632-0088
Source/Origin:	A.I.D. Geographic Code 94
IFB No.:	1427-04-06
Procurement Agent:	Morrison-Maierle, Inc., c/o Sheladia Associates, Inc., 5711 Sarvis Ave., Riverdale, Maryland 20737
Bid Deadline:	August 21, 1985, 2:00 p.m. Local Time, Riverdale, Maryland
Commodities:	Group No. 1: 10,000 feet of 6 inch diameter black iron well casing per British Standard 1387 or ASTM A-53 threaded per British Standard Taper Pipe Thread or American Standard Pipe Thread.
	Group No. 2: 1,025,000 feet of galvanized iron pipe ranging between 2 inch and 3/4 inch sizes per British Standard 1387 or ASTM A-120, Sch. 40, threaded per British Standard Taper Pipe Thread.
	Group No. 3: 25,000 pounds of assorted galvanized iron pipe fittings ranging between 2 inch and 3/4 inch sizes per BS 143 or ANSI B-16.3, Class 150, threaded per British Standard Taper Pipe Thread.
	Group No. 4: 2,300 assorted gate valves ranging between 2 inch and 3/4 inch sizes per ASTM B-62, Class 125, threaded per British Standard Taper Pipe Thread.

NOTE: Delivery expected prior to March 1, 1986. Bids will be accepted from U.S. and A.I.D. Geographic Code 941 firms and joint ventures of such firms for any (full quantity) or all groups of commodities. Payment will be in dollars. A fixed price contract is anticipated. Interested firms may obtain copies of the Invitation for Bid (IFB No. 1427-04-06) by written request from Lesotho Procurement Officer, Morrison-Maierle, Inc., c/o Sheladia Associates, Inc., 5711 Sarvis Avenue, Riverdale, Maryland 20737. Each request must be accompanied by check or money order for $15.00.

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3.5 Item V - Integral Chisel Plow MOHAWK

3.5.1 Supply thirty (30) integral chisel plows, with Category II three-point hitch, suitable for use with the tractor in Item I.

3.5.2 The integral chisel plow shall consist of a rugged main frame of welded tubular construction, approximately 4" x 4", and approximately 12 ft. wide. At least seven (7) rigid shanks shall be mounted on this frame, and shank spacing shall be adjustable to at least 15 inches. Shanks shall be equipped with reversible points approximately 2" x 14". The plow shall be equipped with two wheels for depth control.

3.5.3 An extra set of points, with bolts, and two extra shanks shall be provided with each plow.

Not produced in U.S.A.

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3.16. Item XV - Row Crop Cultivator

3.16.1 Supply one hundred fifty (150) row crop cultivators, fully mounted with Category II three-point hitch, for use with 60 HP tractors.

3.16.2 The row crop cultivator shall be 4-row type, with row width adjustable down to 15 inches. Five gangs of at least two shanks each shall be mounted on a heavy-duty toolbar. Appropriate sweeps or shovels shall be fitted on the shanks. Each gang shall be provided with a heavy-duty gauge wheel for easy depth adjustment, and rear shank depth shall be independently adjustable. Vertical clearance of the cultivator shall be at least 24 inches. Two spring-loaded stabilizer disc coulters shall be provided for stability.

3.16.3 An extra complete set of sweeps or shovels shall be provided with each row crop cultivator.

3.17 Item XVI - Double Knife Type Reciprocating Mower

3.17.1 Supply one hundred (100) double knife type reciprocating mowers, of heavy-duty construction and suitable for high speed mowing. The mowers shall be fully mounted, with Category I or II three-point hitch, PTO drive shaft driven at 540 rpm, and shall be suitable for use with a 60 HP tractor.

3.17.2 The cutting width of the mower shall be at least 4'3" (1.3 m). The cutter bar shall be capable of cutting at any angle from at least 30° above to 20° below horizontal. Cutter knives shall be powered by a balanced-head drive. The cutter knives shall be double-edged and shall be protected by malleable knife guards, with replaceable heat-treated, high-carbon steel, serrated ledger plates. Breakaway protection shall be provided which releases the frame and cutterbar when an obstruction is hit. The unit shall be able to be reset from the tractor cab. An adjustable grass divider with windrower rod shall be provided with each mower to separate cut and uncut crop.

3.17.3 Two extra sickle assemblies shall be provided with each mower.

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USAID INDONESIA (LOAN NO.497-T-045) — SCHEDULE: S - A - 1

PROJECT NO.497-0263 Tractors & Field Machinery ATTACHMENT VI

No.	Qty.	Item: Name and Specifications	Source (if known)	May be changed?
		TRACTORS & IMPLEMENTS		
1	7	DISC PLOW, one 24 inch disc, category one 3 point hitch, disc scrapper, suitable for Ford model 1310, spares for 3 years operation	DELTIM, COOPER, GATES. (D.C.G)	YES
2	6	DISC PLOW, 2 - 28 inch discs, reversible with hydraulic ram, hoses & couplers, disc scrapper, category 2 3point hitch, suitable for Ford model 3610, depth control wheel, spares for 3 years operation.	D,C,G	YES
3	10	HAND TRACTOR, with power driven rotary tiller, power tiller drive chain to be in lubricated waterproof case, diesel engine, 4 cycle, 9-12 hp, 6 forward, 2 reverse gears, rubber tractor style tires, encased waterproof steering clutches, adjustable wheel setting 420-780mm, radiator cooler, 2 set spare tyres, 3 years spare parts, must be servicable in Indonesia, e.g. Kubota K120	Kubota Ltd Osaka, Jpn	
4	10	IMPLEMENTS, hand tractor Kubota: a) paddy wheels - 10 pr., 93067-20121 720 b) cage wheels - 10 pr., 92045-30111 301 c) tail skid - 10 each, 90335-00111 d) leveler - 10 each, 94272-00121	Kubota	Yes
5	16	HAND TRACTOR, diesel engine, 4 cycle, 6-7 hp, 2 forward 1 reverse gear, encased waterproof slip clutches, rubber tired wheels and iron/ swamp wheels, complete with plough puddler & leveling board, tension V-belt type clutch, manufactured in Indonesia.	IRRI-DIPROD Bukit Tinggi W. Sumatra	Yes

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CODE 000 [illegible]

CODE 941 SELECTED FREE WORLD. Any country in the following list excluding recipient country itself.

Algeria
Anguilla
Antigua
Argentina
Bahamas
Bangladesh
Barbados
Belize
Benin
Bermuda
Bhutan
Bolivia
Botswana
Bourkina Fasso
Brazil
Brunei
Burma
Burundi
Cameroon
Cape Verde Islands
Central African Republic
Chad
Chile
Colombia
Comoros
Congo (Brazzaville)
Cook Islands
Costa Rica
Djibouti
Dominica
Dominican Republic
Ecuador
Egypt
El Salvador
Equatorial Guinea
Ethiopia
Fiji
The Gambia
Ghana
Grenada
Guatemala
Guinea
Guinea-Bissau
Guyana
Haiti
Honduras
India*
Indonesia
Israel
Ivory Coast
Jamaica
Jordan
Kenya
Kiribati
Republic of Korea
Lebanon
Lesotho
Liberia
Madagascar
Malawi
Malaysia
Maldives
Mali
Mauritania
Mauritius
Mexico
Montserrat
Morocco
Nauru
Nepal
Nicaragua
Niger
Nigeria
Oman
Pakistan
Panama
Paraguay
Papua New Guinea
Peru
Philippines
Rwanda
Sao Tome and Principe
Senegal
Seychelles
Sierra Leone
Solomon Islands
Somalia
Sri Lanka
St. Christopher and Nevis
St. Lucia
St. Vincent
Sudan
Suriname
Swaziland
Taiwan
Tanzania
Thailand
Togo
Tonga
Trinidad and Tobago
Tunisia
Turkey
Tuvalu
Uganda
United States*
Uruguay
Vanuatu
Venezuala
Western Samoa
Yemen Arab Republic
Zaire
Zambia
Zimbabwe

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CODE 699 FREE WORLD Same as Code 941 except list also includes the following coun

Afghanistan	Hong Kong	Norway
Andorra	Iceland	Portugal
Angola	Iran	Qatar
Australia	Iraq	San Marino
A ria	Ireland	Saudi Arabia
Bahrain	Italy	Singapore
Belgium	Japan	South Africa
Canada	Kuwait	Spain*
Cyprus	Libya	Sweden
Denmark	Liechtenstein	Switzerland
Finland	Luxembourg	Syria
France*	Malta	United Kingdom*
Gabon	Monaco	United Arab Emirates
Federal Republic of Germany	Mozambique	Vatican City
Greece	Netherlands*	Yemen, People's Dem. Rep.
	New Zealand	Yugoslavia

CODE 935 SPECIAL FREE WORLD Same as Code 899 but including recipient country.

Mr. SKELTON. The Chair wishes to recognize the Congresswoman from Kansas, my colleague on the Small Business Committee, and my neighbor just to the west of me, Jan Meyers.

OPENING STATEMENT OF HON. JAN MEYERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mrs. MEYERS. Thank you very much. It is a pleasure to be here. I am sorry that I couldn't hear all of the testimony, Mr. Jones and the others, but I will read your prepared statements.

My district, which consists of the four counties that are adjacent to the Kansas City, MO, area, on the Kansas side, Wyandotte, Johnson, Miami, and Linn Counties, are mostly urban and suburban. Perhaps only 5 percent of my constituency actually lives on the farm. Yet, one out of every six jobs in my district has to do with agriculture or agribusiness in some way or another. So this is an extremely important hearing for me. I was very pleased when I was asked to participate.

I don't need to describe the farm crisis and how it affects us not only on the farms but in town and in all of our businesses. I think in Congress it is important that we understand these problems. Many of my constituents have said to me that the best farm bill that we could write would be one that would make serious inroads on the deficit for the reason that Mr. Jones mentioned, its impact on interest rates and to create a rational dollar. Of course we have to write a farm bill that is market oriented and contains enough support so that we don't end up bankrupting a whole generation of farmers. We have got to do all of this being very sensitive to the budget deficit. So there is no shortage of challenges. The things that you all are going to tell us today will be very helpful. Indeed, it may just help solve all the problems.

Thank you very much. I am pleased to be here.

Mr. SKELTON. Thank you.

Do you have any questions of this panel?

Mrs. MEYERS. I don't have questions at this time. I will have some questions later.

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Mr. SKELTON. Let me ask you, Mr. M.L. Anson, from your study, what parts of the country are better than others and what parts are worse than others?

Mr. M.L. ANSON. Mr. Chairman, I can get that information. The Midwest is just about in as bad a situation and more so than the other areas.

Mr. SKELTON. You are saying the Midwest is the crucial area, the area where you and I live?

Mr. M.L. ANSON. Right. I will also give you a copy of where I got this information.

Mr. SKELTON. I would appreciate that. If we have it today, I will ask that it be made a part of the official record.

Mr. M.L. ANSON. The one I have is pretty well scratched up, but I can get one.

Mr. SKELTON. That will be fine.

What you are telling us is that the Midwest is bearing the brunt of all of this?

Mr. M.L. ANSON. Yes; mine is from 10,000 dealers. Throughout the Midwest it is really bad.

Mr. SKELTON. Let me ask you about not just yourself but other implement dealers. Have you seen the necessity for laying off employees in your business?

Mr. M.L. ANSON. In our situation, I can say no. As a result of this crisis, farmers have fixed up their machinery and our parts and service segment of the business is not doing too bad. It is the sales of new products.

Mr. SKELTON. But the parts and service part of your business doesn't make up for loss of sales on machinery, does it?

Mr. M.L. ANSON. No; for instance, the parts and the service in our business has increased. Well, the parts have stayed even. The service has increased. When you start talking about the complete business, we are downright close to 50 percent from 2 years ago. We have dropped to one-fourth of 1-percent profit on total sales, which improves your service and parts department, but overall you are down. What we handle in the short-line equipment, we are down 48 percent.

Mr. SKELTON. Mr. Jones, I am rather disturbed by your testimony regarding the export-import situation. I am doubly disturbed at the information you just gave us on the AID specifications, which tends to favor foreign manufacturers. That is somewhere between being awful and being disgraceful.

Mr. JONES. I agree.

Mr. SKELTON. I appreciate your bringing that to our attention. There are a lot of questions that I wish I could ask you, but in deference to time I will not. I will study your testimony and I promise you we will follow through on this aspect of it when we get back to the Capitol.

Mr. ORBAN. I have just one question of Senator Danner. What, in your view, and I know you are involved in the government as a State Senator, but what, in your view, should the Federal Government be doing to help the States and counties and towns meet this crisis? Is there anything that you know of? Is there any suggestion you may have? Is the delivery of existing programs sufficient in your view or have there been any problems along those lines?

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Ms. DANNER. Specifically, one of the problems is the FmHA understaffing their offices so that people who would have applications on record would not have it acted upon. I do believe, in all candor, that FmHA has improved somewhat. But, as you very well know, if you don't have the money when it is time to plant, a week or two can make a big difference, and that is a real problem.

I can't close without philosophically saying, and this has to do with the Federal Government, there is something wrong with subsidizing. I think our Federal Government subsidizes foreign countries. Those foreign countries, in turn, subsidize their agriculture and then they compete with us. That is illogical.

Mr. SKELTON. Congresswoman Meyers.

Mrs. MEYERS. As you are all probably aware, at the beginning of this session we had some bills before us that would have addressed the farm credit situation, and we did pass one of those, which was subsequently vetoed by the President. His statement was that he had all of the credit tools that he needed in order to make the loans to farmers that they needed in order to do their planting.

Do we need to make any changes in the farm credit system? What changes are needed?

Ms. DANNER. I did spend some time in Washington and there was a gentleman's agreement, as Mr. Anson said, that the biggest problem is in the Midwest. There was much conversation about Farmers Home and their lack of implementation of the programs that are online. They are simply understaffed in their offices. It is a very real problem.

Mrs. MEYERS. In other words, the tools may be adequate but it is the implementation and the appropriate staffing to do what they are supposed to do in a timely manner?

Ms. DANNER. Most of the calls I have received have led me to make phone calls to ASC offices in my district, as well as to the gentleman from St. Joseph who served as the parent to the ones in my district, and he is the one that told me that at that time they had recently been able to hire some people.

According to what I was told, and I will not identify which county, they had pleaded with Washington last year for additional help in their offices and received absolutely none until this spring.

Mr. SKELTON. Thank you very, very much for being with us today and sharing your thoughts. We hear you. Thank you again.

Panel No. 2: Ray Davis, J.W. Simmons, and Don Epps.

I will again mention that any written testimony you may have will be offered for the record. If you wish to give a shortened version of it, that would certainly be all right.

Mrs. MEYERS. While we are waiting for the gentlemen to be seated, I would like to say that the reason I was so late is that I had a speech in my district this morning between 9 and 10 a.m. I am sorry that I was late.

Mr. SKELTON. We did announce that you were busy in your district.

We would ask that you state your name and your occupation and your business. We will begin with you, Mr. Davis.

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TESTIMONY OF RAY V. DAVIS, CHAIRMAN OF THE BOARD, WITHERSPOON COMMISSION CO., AND PRESIDENT, KANSAS CITY STOCKYARDS CO.

Mr. DAVIS. My name is Ray Davis. I have an office in the Livestock Exchange Building. I am chairman of the board of Witherspoon Commission Co. and president of the Kansas City Stockyards Co. I have been in the stockyards business for 50 years plus.

In my opinion, we have got farm problems that we all know about. I have some thoughts on how we got there.

The present farm economy is a result of a big number of factors. In my opinion, the first one was the Federal Reserve Board's change from looking after interest rates to looking after money supply, which ran the interest rates up. When this stopped inflation, it brought the price of land down. It put the farmer in the position of having to pay more interest. These changes had the effect of reducing the value of the farmland that was the asset on which large debts were financed at the same high interest rates added to the costs of serving those debts. It's been a saying of mine for 20 years that the only way that farmers have stayed in business is that their land has appreciated enough so that the farmers could go further in debt to keep on operating.

The time has now arrived that production from farms will not service the debt, and in some cases it won't even pay the interest.

Another result of the Fed's money management has made U.S. interest rates high enough to attract foreign investors to run up the value of the dollar to the point where our exports are priced out of the world markets.

The Government programs to help maintain the family farm have not worked. The price supports, the target loan prices, PIK's, and tax laws, which made it possible for nonfarm companies to enter farming, have created oversupplies. Farmers were told to farm from fence to fence and that we would export all they could grow. They were told that we had to feed the starving world. The world depression caused the starving world to be unable to pay for our exports.

The prices created by the farm programs caused other countries to increase their production of food and fiber to the point that they have become exporters of the products that we were growing to export to them.

The tax laws made it profitable for persons in other businesses to get into farming. I do not contend this to be bad, just fact. The tax laws did, however, cause the cost of land to increase faster than it would have otherwise. To a farmer selling land, this worked well, but to the farmers trying to expand to cover the costs of farming or to include other members of the family in farming, it caused problems.

The lenders, both the farm credit system, as well as commercial lenders, made easy credit available to one and all. What the land would produce had nothing to do with the price paid for it. The fact that prices continued to rise due to inflation made loans look good. The saying, "The Lord gave us only so much land and there will never be any more" caused a lot of lenders to say, "Land prices can never go down." They overlooked the fact that the Lord also gave

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land to other countries, such as Canada, Europe, Russia, and China. The cost of production in those other countries was and is much lower than in the United States. The governments of those other countries help their farmers in export efforts. The result of all this is that we cannot sell our product high enough to cover the cost of production.

The farm debt is the major cause of the farm problem. The Federal debt is also a major cause. U.S. interest must be kept high enough to attract foreign investments to service the national debt.

The farm problems have caused real problems for the companies that serve the farmer. We talk about interest rates being up. It is my opinion that we have to keep them high enough so that the foreigners will take our Government securities in order to finance the operation of our Government. If they all quit, I don't know where you will get enough money to operate your Government. As I understand it, we are a debtor nation. We owe more than we have got.

Now, all these farm problems have created problems for towns, everything else, your banks. Bank failures are becoming daily news. Recently we had five in 1 week. Bank closings have risen from 7 in 1983 to 32 in 1984. Loans exceeding capital in Missouri are up from 15 to 39 in 2 years. It increased from 14 to 30 in Kansas. PCA losses are over $300 million. Seven PCA's have closed according to the figures I saw. Nine out of twelve intermediate credit banks have been forced to add cash into PCA's to keep more of them from going out. Ten percent of FmHA loans have loss ratios in excess of 70 percent. Now, that means the guy is broke but he just hasn't left yet. The Des Moines Register ran a story on June 14 that Omaha intermediate credit banks would need over $600 million to stay solvent in the next 3 years.

Small cities and towns that serve the farms are very hard hit. A recent article in the local news referred to the city of Trenton, MO. The article stated that most of the young people were leaving the community to find work in other places. Stores that supply the farmers with machines, fuel, seed, and other farm needs are going out of business, some from lack of business, others from accounts receivables from farmers, and others that cannot pay their bills.

To add further to the poor Missouri farm economy, the overall state of Missouri economy has been in a decline for years. From 1960 to 1980, Missouri's share of the national income dropped from 2.4 percent to 2 percent. This sounds like a small drop, but it represents a decline in production of $12 billion. Employment in Missouri in 1960 was 2.4 percent of national income, down to 2.1 percent in 1980. Per capita income from 99.4 percent to 91.7 percent at the same time.

Agriculture is still our No. 1 business in Missouri, but we cannot absorb all the people in our large cities that have already moved and more to come because of the unprofitable condition of agriculture. This affects our local economy, banks, merchants, schools, local governments, et cetera. This trend must be reversed. Jobs and opportunities must be available for our young people in rural Missouri. Agriculture is an essential industry and it must again become profitable.

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Solutions. The time has come to "pay the preacher." The entire world has lived beyond their means for years. Governments, farmers, and the consumers have been on a spending binge. We have used up most of our assets. The solution will be painful to all of us. The price of land must come down to where it will pay for itself. Who takes the loss will depend on a lot of factors. If the lender takes the land, what will he do with it? If the Government, as has been suggested, takes the land, then what?

I am aware that only a portion of the farmers and businesses are in bad shape; also, that many farmers and others are in a position to buy and use the land, but the desire to do so will be limited by the opportunity to make a profit. The proposed changes in tax laws will not help. Most lenders have read the papers and most of them have lost interest in farming.

What I am trying to say is that I have no idea of the necessary actions to solve the problems, but I do appreciate your inviting me before this subcommittee so I can speak my piece.

Thank you.

Mr. SKELTON. Thank you. I am sure we will have questions later. Jay Simmons.

TESTIMONY OF JAY SIMMONS, CHAIRMAN, BOARD OF DIRECTORS, CITIZENS BANK, WINDSOR, MO.

Mr. SIMMONS. Thank you, Congressman.

I think what has happened is that those who have been ahead of me have read the same material that I have. I will only be duplicating a lot of it. So if it is all right with you, since I have sent you a copy of my little speech here today, I will just make a few comments.

Mr. SKELTON. Yes; your written statement will appear in the record.

Mr. SIMMONS. In order to let the ones in this room know who I am, where I am from, my name is Jay Simmons, and I am the chairman of the board and a director of the Citizens Bank of Windsor, MO, which I might also say has a branch at Tightwad, MO. We don't want to forget the Tightwad Bank. It is the only one doing any business.

Windsor is located about 85 miles southeast of Kansas City. We are in the corner of Henry, Pettis, Johnson, and Benton Counties. Windsor itself is in two counties, Henry and Pettis. I might add that when you are in the corner of anything you get what is left over. We are not on a main highway or in a county seat town. Windsor has a population of about 3,000 people. We are suffering, just like everyone else is, from the declining prices of land in our agricultural program.

A few years ago we lost our Peabody Coal Co. that employed around 300 people. Just this month our largest industry closed, the International Shoe Co., which had around 250 people working there. We have a few smaller industries that are having to cut back on their employees. At the present time, we have around 30 percent unemployment. That isn't very good.

This will be the fifth losing year for some of our farmers, unless they can have a good crop. Last year, due to the weather, the farm-

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ers averaged about five bushels of beans per acre. They have usually averaged about 40 bushels of beans per acre.

With particular reference to the agricultural segment of the economy, we are currently facing the worst deterioration in commodity prices and land values experienced in the past 40 to 50 years. It is also affecting downtown main street businesses, which will include almost every phase of income, and will also include a ripple on banks.

We know something is wrong when our own Secretary of Agriculture must sell his own personal assets and restructure his debt. We know if he has to do this, and he is supposed to be the big boss, the papa boss, what is going to happen to some of our own farmers. The House Agriculture Committee chairman, Kika de la Garza, said, "Farm subsidies consist of 1 percent of the total Federal budget. For that expenditure consumers receive a cheap food policy, if it is really a policy."

On June 6, 1985, the Kansas City Star published an article stating land foreclosures in the area were up 45 percent according to their survey yet farm auctions in this same area are down by almost the same percentage. Obviously farmers who sold machinery at auction last year are now losing their land. For example, in one county there were no farm auctions but 16 land foreclosures.

One out of six jobs in our area has some connection with agriculture. About 30 percent of the revenue earned by the local trucking company comes from agriculture. Barge lines get two thirds of the business from farming; railroads get 15 percent. The list can go on and on.

Warren I. Melles of Northrup-King said:

> In a free society such as ours, we haven't done as well by the farmers as we should have. His margin is so slim that the slightest variance in weather will vastly offend his pocketbook. American industry averages a return of about 16 percent on investment, but the American farmer ekes out a living with an average return of around 3.6 percent. At that rate, he would be better off putting his money in a passbook savings account.

In the February 2d issue of Farm Talk, there was an editorial by Thayne Cozart, who said:

> The average American pays $6,399 in Federal taxes. Of that total $2,127 goes to the Social Security Fund; $1,501 for the national debt; $850 for health, education, and social services; $716 to pay interest on the national debt; and $11 goes to the farmers and ranchers in the form of direct Government payments.

I might add a little bit more on the banking industry. I have talked with several small rural bankers at conventions and State meetings. I have relatives who are employed in rural banks in Texas and Illinois who are experiencing the same problems as ours in the agricultural sector. I want to know, is it the policy of the Government and its agencies to help the large and let the small perish? Why does the Government see fit to save the large city banks only to close the smaller banks? Ladies and gentlemen, it is not fair. Why isn't it possible for the FDIC or Federal Reserve Bank to arrange to loan to those small banks in the rural areas which are having problems because of the present-day crisis in agriculture in order to let them survive? If you are an agricultural bank, it is almost impossible to get any funds. I might add to that that the FDIC stands for Federal Deposit Insurance Corporation. A

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lot of bankers think it stands for forever demanding increasing capital. Every day we get some form of literature from Washington stating that the banks are going to have to put in more and more capital. How are we going to put it in when we don't have any place to get it.

The big city banks which own rural banks are beginning to divest themselves of those agricultural banks. They don't want them themselves.

I, too, do not have the answer. I don't know where we are going to go. I know that we have got to stop importing a lot of goods. For instance, International Shoe factory would probably still be working had not 70 percent of our shoes been imported. I think we have waited too long to correct the situation.

Our cattle prices are down and our hog prices have been pitifully low. One reason is because we import hogs from Canada. When they import ours, they quarantine ours for 30 days. I don't think that is fair either.

I have been a banker since 1946. Up until 1981 I could never remember losing money on any agricultural-type related industry.

I was talking to the deputy commissioner of finance this past week. He states that there are over 500 agricultural banks in the State of Missouri and almost every one of them has a problem.

I feel as a resident of a small agricultural community and one of its bankers that we need your help. Without it our very survival is in jeopardy. Until a realistic alternative is available to all of us, we cannot allow an entire segment of our economy to fail.

I do appreciate the opportunity to appear before you and to express my views. I welcome the opportunity to try and answer any questions you or your staff might have as a result of this crisis.

Thank you very much.

Mr. SKELTON. Thank you very much.

[Mr. Simmons' prepared statement follows:]

PREPARED STATEMENT OF JAY SIMMONS, CHAIRMAN, BOARD OF DIRECTORS, CITIZENS BANK, WINDSOR, MO

My name is Jay Simmons, Chairman of the Board of Directors of the Citizens Bank of Windsor, Missouri. Windsor is located about 85 miles southeast of Kansas City, Missouri. Our town is in a corner of four counties; Henry, Pettis, Johnson and Benton. Windsor itself is in two counties. We are not a county seat town, nor are we on any main highways. Windsor used to have two railroads running through our town, but since the Rock Island Railroad is no longer in existence, we only have the Katy Railroad.

Windsor has a population of around 3000 people. The community is primarily supported by the agricultural base of the surrounding area with a small amount of light industry. Of course the impact of the current decrease in commodity prices and declining land values is having a substantial impact on our community and all of its retail base along with the bank. A few years ago, Windsor lost the Peabody Coal Company that employed around 300 people, and we have this month lost the International Shoe Factory that employed 250 people. We have a smaller industry that has cut back on its employees substantially, and this now leaves the agricultural base to solely support the local businesses. We presently have approximately 30 percent unemployment.

If the farms fail to crop this year, it will make the fifth consecutive year for the majority of the farmers. Our weather has been either too wet or too dry. For example, last year our farmers averaged around five bushels of beans per acre when the normal yield is about 40 bushels per acre. These yields coupled with current prices will not pay their fuel, let alone seed, fertilizer, interest, taxes, etc. The farmer's future in our area is extremely dismal.

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With particular reference to the agriculture segment of the economy, we are currently facing the worst deterioration in commodity prices and land values experienced in the past 40 to 50 years. Without some form of government assistance to this sector of the economy, not only with the farmers fail, but downtown Main Street businesses which are failing now will cause the failure of other farm related businesses, including banks, "the ripple effect." Small communities are and will continue to virtually wither and face a slow painful demise. When the government's own Secretary of Agriculture must sell his own personal assets and restructure his debt, I am at a loss as to how he can take the attitude he does with agriculture in letting the farmers sink or swim. "In the April edition of Midwest Farm Press, House Agriculture Committee Chairman Kika de la Garza, a Texas Democrat, said: "Farm subsidies consist of 1 percent of the total federal budget. For that expenditure, consumers receive a cheap food policy if it is really a policy."

"It is almost impossible to figure the subsidy amount the average family farmer receives because all subsidies flow to 250,000 large farms, according to former Agriculture Secretary Bob Bergland. The remaining 2.4 million farms receive the rest."

A lot of the farmers' problems were brought on by Government policies under Secretary of Agriculture Butts a few short years ago. The Farmers Home Administration's policies, which has encouraged the farmers to plant from fence row to fence row, as the world would not be able to feed everyone in the coming generations, certainly didn't help. Additionally, the Farmers Home Administration encouraged the farmers to borrow more money for machinery, dairy barns, homes, cattle and to spend, spend, spend. Now virtually everyone must pay the price.

On June 6, 1985 the Kansas City Star published an article stating that farm land foreclosures in the area are up 45 percent according to a recent survey. Yet farm auctions in these same areas are down by almost the same percentage. Obviously, farmers who sold their machinery at auction last year are now losing their land, for example in one county there were no farm auctions, but 16 land foreclosures. Missouri had a rash of farm auctions last year, and apparently the end is no where in sight. In a recent article from the Kansas City Times dated June 18, 1985, Nebraska banking records indicate an increased number of nonperforming loans, most related to low agricultural profits for bank customers, Non-performing loans reduce a banks income and can cause long-term problems if they can't be collected. "Those loans are not necessarily lost. They're not gold-plated loans, but usually we'll collect them," said Mel Adams, of Ogallala, who is president of the Nebraska Bankers Association. In the April 21 edition of The Kansas City Star an article states, "One out of every six jobs in the area has some connection to agriculture. About 30 percent of the revenue earned by the local trucking comes from agriculture. Barge line get two-thirds of their business from farmi and the railroads get 15 percent. The list goes on.

When farmers are taking-off-the-farm jobs or their wives are going to work away from the farm to stay afloat, that tells you something is desperately wrong.

Warren H. Melles of Northrup-King Co. said: "In a free society such as ours we haven't done as well by the farmer as we should have. His margin is so slim that the slightest variance in weather will vastly offend his pocketbook. American industry averages a return of about 16 percent on investment. But the American farmer ekes out a living with an average return of around 3.6 percent. At that rate he would be better off putting his money in a passbook saving account."

Ill conceived export and import policies, coupled with sporadic and fuitless price support systems over the years have caused this saga to unfold. However, to abandon the farmer and those who must depend upon him will only further drag this country to its knees. The relief the farmer and his family seek is denied at every turn because of bureaucratic red tape and inaction. If this scenario is allowed to continue, virtually every farmer, rancher, related businesses, including banks and small communities will perish. In the Feb. 2 issue of Farm Talk, an editorial by Thayne Cozart said: "The average American pays $6,399 in federal taxes. Of that total, $2,127 goes to Social Security fund; $1,501 for national debt; $850 for health, education, and social services; $716 to pay interest on the national debt; and $11 goes to farmers and ranchers in the form of direct government payments."

I have talked with several small rural bankers at conventions and state meetings. I have relatives that are employed in rural banks in Texas and Illinois that are experiencing similar problems to ours in the agriculture sector. Is it the policy of the Government and its agencies to help the large and let the small perish? Why does the Government see fit to save the large city banks, only to close the smaller banks? Gentlemen, this is not fair. Why isn't it possible for the FDIC or Federal Reserve Bank to arrange to loan to those small banks in the rural areas which are having problems only because of the present day crisis in agriculture as a whole to let them

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survive? If the FDIC closes a bank, they offer it to other large institutions at a greatly reduced price and will charge off millions of dollars in order for the new buyer to have a clean bank. The FDIC will let them pick and choose the loans they wish to keep and the FDIC will take the bad ones themselves, at a terribly expensive price. Why cannot there be a lending institution designated to assist the small banks to borrow funds to inject into their capital structure, when it is literally impossible for them to borrow from larger city banks, just because they are agriculture banks?

Gone are the days when the small banks can look to their big city counterparts; or their holding companies for assistance. The larger banks and bank holding companies are not interested in making capital loans to banks in smaller communities; in fact, they will readily admit they desire to rid themselves of those similarly engaged banks which they own. If the regulatory authorities contine to pursue the hard, sometimes arbitrary, polices they indicate they will continue to enforce, they should consider even further increasing their staff to accommodate for the bank failures which will continue to soar. Why does the government continue to advise banks to request assistance from regulatory bodies whose own regulations prevent them from granting the requested assistance? I feel personally that the small agricultural bank is the only practical assistance that is available to the farmer, but the banker pursuant to regulation is under the barrel of the same smoking gun as the farmer. It is simply a matter of which one the bullet strikes first.

The banking community in the smaller cities and towns such as ours is faced with a double edged sword. First—it must make the hard and personal decision to either assist the farmer in his plight or liquidate him in order to perserve the bank. Essentially because the Government has denied the desperately needed assistance to bring about the necessary reforms to this segment of the economy.

Second—The bank must face the consequences that no matter which choice it makes—unfriendly regulatory authorities are going to perceive it to be the wrong choice. It is difficult to have healthy, viable small towns without prosperity in agriculture, and its related businesses.

We, meaning the farmer and the farm related businesses, including banks and smaller agricultural communities need help, not rhetoric.

1. The farmer needs a realistic farm program covering all aspects of the situation, including export consistency.

2. Immediate credit relief in some form through a practical and workable guarantee program, not granting unlimited credit, but assisting those who need and deserve it to survive; a forebearance against all farm foreclosures for some period of time, would at least be a start.

3. Some types of assistance to smaller agricultural banks, who cannot increase their capital through conventional means, by some government agency, rather than face liquidation.

4. An overall program to assist communities and businesses to allow survival during these times of severe adjustments. Jobs are vital to small towns. Without off-farm jobs, young people have a difficult time getting started in farming and struggling farmers are more likely to fail. They then need full-time jobs or they will relocate. When young people who would like to remain in the smaller community to raise their families but are unable to do so and have to move elsewhere, then we start to see the steady migration that results in an erosion of schools, businesses, services, churches and community organizations in rural areas. The future of rural America will continue to dim in many areas until ways can be found to reverse the situation and to assist growth and opportunity there once again.

I feel, as a resident of a smaller agricultural community and one of its bankers, that we need your help. Without it our very survival is in jeopardy. Until a realistic alternative is available to all of us, we cannot allow an entire segment of our economy to fail.

I appreciate the opportunity to appear before you and express my views. I welcome the opportunity to try to answer any questions you or your staff might have to resolve this crisis.

Mr. SKELTON. Don Epps.

TESTIMONY OF DON EPPS, FARMERS EXCHANGE COOPERATIVE; PAST PRESIDENT, KANSAS GRAIN & FEED DEALERS ASSOCIATION, PRESCOTT, KS

Mr. EPPS. My name is Don Epps. We have been in the grain business since 1946. We are located in a couple of small towns in Linn

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County, KS. We operate a feed supply and fertilizer custom application, spraying operation, the whole ball of wax. Our business goes or doesn't, depending on how our customers are doing.

One of our big problems is that we have had several failures and bankruptcies. We have had to write off some pretty large accounts. That has hurt us.

I am also a board member and past president of the Kansas Grain & Feed Dealers Association. So I do have a little knowledge of something like 1,100 elevators in the State of Kansas. We, like the banks, have had our share of bad things to happen. There have been about 15 elevators to close for one reason or another in the past 6 months.

I am about your seventh speaker, and all of us have about the same problems, so it is a little hard for me to be original, so I am going to make this real short.

In our area we have had some bad weather and some poor yields. The financial condition of some of our farmers in the State of Kansas, as well as in the State of Missouri, as well as we deal with quite a few people in Iowa and other States where they have had reasonably good crops, and they have got problems too. Western Kansas has had about two or three of the best wheat crops in past history. Their failures are just as bad as they are here.

We have had bad, bad crop years and we have had high interest rates, which, to me, is one of the biggest problems. The next biggest was expanding at inflated prices and low prices for what they produced. If you go back to 1980 or maybe just a little further back than that, we have had the interest rates to go sky high, we have had fuel prices double, we have had our electricity and our natural gas to double. We might have been able to handle any one or possibly two of these, but when they all hit you at once, why, it is bad business.

Possible solutions. I have thought about this a little bit and I thought, boy, it is tough just to be negative. You ought to have something good to say about it. I guess my solutions would include the need for interest rates to come down. This trade balance thing has been mentioned. It is a real tough deal. We have got two or three things that hurt us. For instance, on our exports, I know we have got this preferred cargo thing that is costing us an awful lot of money.

Mr. SKELTON. Cargo preference?

Mr. EPPS. Yes. My thoughts on that are, of course, mixed. Why can't we ship grain in our ships as cheap as somebody else can? Why can't we build an automobile in the United States as cheap as they can build them in Japan and send them back to us? Some of these things really bug me. We were the leading country in the manufacture of cars and trucks. All the technology on the assembly lines was actually exported and now we are forced to compete with other people. This really bothers me.

I think I am going to close. Thank you very much for the opportunity to speak.

Mr. SKELTON. Mr. Epps, thank you so much for joining us.

Mrs. MEYERS. One of the farm proposals suggests a couple of things in addition to adjusting loan rates so that we can have a more market-oriented farm situation, it also suggests providing in-

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centives for taking a lot of the more fragile land out of production. I think that they estimate it would take 20 million acres out of production, and also suggests something we have been doing recently, and that is providing a bonus to try and make our products more competitive overseas. Of course, we now not only have other countries which are also producing substantial amounts of grain but which are also subsidizing the sales. So, in order to make ourselves more competitive, we could use our surplus as a bonus to try and offset that difference in the strong dollar and other currencies. I would like to have you comment on that, if you think it would help. I don't pretend to be any kind of a farm expert, but I have spent 12 years in the legislature. I grew up in a town of about 3,000. My dad was editor of our paper and owned farms. I have been interested in the farm economy for a long time and would really like to do whatever I can to help resolve the problems. I would like to hear your comments on these things.

Mr. EPPS. The No. 1 problem with it is, if we are talking about some of our distressed farmers, that they can't service their debt. As far as helping the problem farmers, it won't help. Maybe by taking some land out of production these people could get along and it would in the long run get the prices up a little.

The other question of the bonus program, I am all for it. I am in the grain storage business. I think one of the dumbest things we ever did was to pile grain up and pay storage on it. Sure, we want to reserve a reasonable supply, but to just pile this up like we have in years past, and which is probably going to be done again this year, it will only cost the taxpayers money. It doesn't do the farmers any good. It is a cloud hanging over your head, and I think it acts as a depressant on price. Also, the bonus program, I am all for it. Let's get rid of the stuff.

Mrs. MEYERS. Would either one of you gentlemen like to comment on the land retirement or bonus program?

Mr. DAVIS. The bonus program, Rexal Drug Store proved that it would work when they offered you buy one and get another for a penny more. If it will sell drugs, maybe it will sell grain.

The land retirement thing, if you look back at it, you had your 10-year soil banks, you had all of this, all of that, really; you put your poor land in the soil bank and cropped your good land and you still had a surplus.

Mrs. MEYERS. I think there is maybe a limitation in this bill.

Mr. DAVIS. To cut production, you have got to do it by the bushel. Maybe it works and maybe it doesn't. There are a lot of farmers that it is so close a thing that if you cut their income back at all they won't make it. There are some people who are still in farming simply because the FmHA loaned them money. The banker is supposed to be the one whom you can't tell which eye is glass because he is hardhearted. I don't believe that you need to keep a person in farming that doesn't fit, but by the same token I don't know what you would do with him if you sent him to town. If he can't farm, he probably can't do much of anything else. I don't think I have a solution.

Mr. SIMMONS. That is going to be a real problem. It may be a start toward the answer, but it is by no means the entire solution. A lot of this ground that is washing needs to be taken out of pro-

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duction and put back into grass. Two members of the panel stated that probably the debt against some of these farm lands is so high that they can't afford to set it aside as it wouldn't pay the interest on their investments at this time.

Mrs. MEYERS. Before I ask counsel if he has any questions, I read an interesting article last week that Pat Roberts gave to me. He is our Congressman from western Kansas. The title of the article was "The World Awash in Grain." It was talking about how we not only have our own surplus to deal with but that other nations are getting much more efficient about their production. They are subsidizing production and are being extremely competitive. What should we do so to be more competitive? In addition to the bonus program, what steps can we take, I mean, other than helping to address the deficit, so we won't have such a problem with the dollar? What else can we do to be more market competitive, more market oriented?

Mr. DAVIS. One thing, in my opinion, that you can do is to confirm Clayton Yeutter back there to go back there and do the trading. In my opinion, everybody who has been back there for the last 30 years has been outtraded. I would love to sell a load of cattle to some of the people that have been representing our trades and our commodities and tariffs and what ever they call it. We need somebody back there who acts like they have an interest at least in the American farmer. They have given away everything we have had and they have finally run out of something to give away.

Mrs. MEYERS. When other countries begin to use some trade practices that we have always thought of as inappropriate, is it time for us to have some retaliatory trade practices? Is it time for us to get into that sort of thing? What do you mean by we have been outtraded?

Mr. DAVIS. Well, we have given them everything and we got back the box it came in. You know that many of the trades we made and the product that came in went to the storage community. They are covering us up in milk and butter. We have more now than we have any use for, yet they refuse to put tariffs on them because the trade was that they wouldn't. We need somebody to at least make some rules that will put us on an equal basis.

Mrs. MEYERS. We need tougher traders?

Mr. DAVIS. We just need somebody to trade that knows how, in my opinion.

Mrs. MEYERS. Thank you.

Mr. ORBAN. Mr. Simmons, I have a question. Let me go back to what you said was the difference in treatment between your bank and the treatment of larger banks by the FDIC. What kind of treatment have you been getting, what is the difference specifically, and how does it affect the people who use your bank or the farmers who rely on your bank?

Mr. SIMMONS. I was referring to the Continental Bank of Illinois and all other large banking institutions. I think if the FDIC had known the losses that they were going to take in the Penn Square Bank, they would not have let that bank fail. They thought they were going to take about a $500 million loss and they took probably $1 billion or more.

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The thing that bothers all small banks is this one particular thing. A lot of the smaller banks do not need very much additional capital to see them through this crisis, but where are you going to borrow the money? If you cannot get any help from any of your corresponding city banks, who else is going to lend it to you? We don't have an agency to help us. I am not referring to any particular banks, but I am saying that all of the county banks have this problem right now. We are in a capital bind due to the fact that we have had so many foreclosures, so many bankruptcies, so many farms deeded back to us. Then the FDIC says you need to put in more capital. Where are we going to get it? I think there ought to be some sort of a government agency somewhere to help. They have tried to have a guarantee program for some of these farmers and others, so why can't they let a bank borrow some money from a government agency and give us a few years to pay it back? We will pledge the bank stock or whatever they need for us to pledge. When the FDIC says they want a 7-percent capital assets ratio, and then say they are going to increase this to 9 percent, fine, we would like to do it, we want to do it, but who is going to let us have it? Yet, by the same token, they refuse to close the larger banks. They don't mind closing the smaller banks. They can afford to lose a few million dollars. Let me go one step further. You have a $50 million bank that was recently closed in the last few months. That bank, to my understanding, was purchased for $1,026,000. The FDIC wrote off probably $16 million to $17 million. Probably all that bank needed was a little capital injection and they could have weathered it. We don't have any such agency to help us. We need it. We have got to have it.

Mr. ORBAN. In your opinion, could the FDIC have helped you if they wanted to?

Mr. SIMMONS. Well, sure, they could have, at a lot cheaper loss than what they have taken. Whenever you write off a bank, you are going to take losses. This is like selling something on the courthouse steps. You are never going to get the full price. You are going to be lucky to get 10 or 15 cents on the dollar. We need some institution to help us.

Mr. ORBAN. It is the rural banks that seem to be taking it on the chin?

Mr. SIMMONS. Exactly.

Mr. SKELTON. While I was out, I understand that all of you endorsed the agricultural PIK Program. I am convinced that will be part of the permanent farm bill. As I mentioned before, there was a bill in for this and the Senate passed it in the committee. In the meantime the administration said they didn't need legislation. I think you will see it as part of whatever farm bill comes to pass.

Are there any other questions?

Mrs. MEYERS. I have asked my questions. I thank you, Mr. Chairman.

Mr. SKELTON. Thank you so much.

Mrs. MEYERS. Thank you very much.

Mr. SKELTON. The last panel consists of Larry Davis, Bill Powell, and to shorten our time, we will ask Dr. Heffernan to step forward also.

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TESTIMONY OF LARRY E. DAVIS, KANSAS STATE DIRECTOR, FARMERS HOME ADMINISTRATION, DEPARTMENT OF AGRICULTURE, KANSAS CITY, MO

Mr. DAVIS. Thank you very much.

Secretary Block has asked me to represent him here today. He wants to thank you for inviting the Department of Agriculture to participate in this hearing.

Mr. SKELTON. Let me interrupt you. We had a hard time getting them to agree to send anyone. I am glad that you came, sir.

Mr. DAVIS. I received a call about 2 weeks ago.

Mr. SKELTON. We had to call the Secretary's office to get them to send someone. I am pleased that they have sent you. We would like to know what you have to say. I am sure that your hearing what has been going on here will be of benefit to all of us.

Mr. DAVIS. I believe so.

Mr. SKELTON. Be sure and pass our thanks along to the Secretary.

Mr. DAVIS. Thank you.

We believe this has been a year of highly significant action, spearheaded in the USDA by the Farmers Home Administration, to reconstruct the finances of farmers whose financial problems impact farm-related businesses.

Of the country's roughly 680,000 family size commercial farms in 1984, about one-fourth of those face some degree of financial stress.

These farmers' financial condition has had an adverse impact on the economy of many rural communities in areas where agriculture is the dominant enterprise. Businesses that provide equipment, supplies and services to farmers are themselves experiencing such difficulties.

This year we have made a different and broader and more constructive use of Government resources than what has been done over the last decade, when little was done, except to throw billions of dollars at the problem and thereby run up the debt to even more ruinous proportions.

Under a concept initiated by President Reagan, the emphasis this year has been on two parallel objectives:

First, to restructure farmers' existing debt and bring payment requirements into balance with a farm's cash-flow. FmHA is exercising a variety of authorities to perform this service for its direct borrowers. We do offer guarantees to other lenders who will take sufficient debt adjustment actions. Actions include setting aside a portion of debt, and deferring, rescheduling or reamortizing payments for the benefit of 80,000 seriously distressed FmHA borrowers. FmHA has also subordinated liens in some 17,000 other cases so that farmers can secure credit from other lenders.

Second, the Government's last-resort lending through FmHA is being concentrated on essential farm operating needs to keep farmers in business this year. We view this as a much higher priority than real estate financing except in cases of absolute necessity to prevent loss of a farm. In the course of this effort, FmHA will have delivered $3½ billion of direct loans, and guaranteed $1 billion of loans by other lenders to augment the supply of farm operating credit by the end of fiscal year 1985. This is more than twice the

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amount channeled through FmHA's farm operating loan program in any previous year and nearly 10 times more use of the operating loan guarantee by other lenders than ever before.

We are confident that by assisting farmers, this effort will have a positive ripple effect throughout the agribusiness community. A substantial part of that $4.5 billion passes through to supply and service establishments with which the farmers do business. And with a restored positive cash-flow, farmers should be able to make payments to their creditors, including farm suppliers.

We are encouraged by what is being accomplished this year in coming to grips with the farm financial crisis. In FmHA, where we deal with about 12 percent of the Nation's farmers, but a higher percentage of the financially disadvantaged, we have been successful in keeping some 98 percent of our borrowers in business.

We believe this is a signal of hope for all the elements, the farms and the farm-related businesses.

If you have any questions, I will be happy to answer them.

Mr. SKELTON. Thank you so much, Mr. Davis, for traveling all the way from Topeka to be with us.

Mr. Powell.

TESTIMONY OF WILLIAM A. POWELL, REGIONAL ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION, REGION VII, KANSAS CITY, MO

Mr. POWELL. Thank you, Mr. Chairman. I appreciate being here this morning. I am pleased to have this opportunity to discuss with you the problems of the rural economy and how they relate to small businesses.

For the record, my name is Bill Powell. My title is Regional Administrator of the Small Business Administration here in Kansas City, MO, Region VII, which includes Missouri, Kansas, Iowa, and Nebraska, which is basically the heart of the problem, without a doubt. I regret that there are problems, but we do have them. I think it is good of you to call a hearing to discuss them.

I should point out that for 40 years I was a small-business person and a farmer so I can see it from both sides, the situation that we are in today.

Most certainly all the States adjoining Missouri suffer the same problems that we have. I will state again what Senator Danner said when she started out, "The rural economy is a disaster."

I lived through the 1930's and helped my dad on a farm. I saw then a very similar thing to what we are going through today, a tightening up of all the banking and financial institutions. It is almost identical today to what it was in the 1930's. All of them are running scared today.

Some of these numbers I have will be proof of some of the things that have already been said here today.

Typical of some of the problems facing Missouri today are those reflected in the article which appeared in the Topeka Capitol Journal of June 10. It pointed out that 17 Kansas banks in the State of Kansas had delinquent loans that exceeded their capital. There were 42 banks in Kansas that had delinquent loans that exceeded half of their capital. In addition, there were seven banks that failed

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in Kansas last year and another one so far this year. The situation is equally as bad in Nebraska and Iowa, and worse in Missouri. Iowa has had eight banks close this year. Only last week the Urbana, IA, bank closed, a small bank in a rural community in Iowa.

I think Ike's question to Mr. Anson helps to verify that. In 1984 there were 1,644 bankruptcies in the State of Missouri as opposed to 1,075 the year before. That is an increase of 52.9 percent. Missouri ranks fourth, Kansas ranks third, in the increase in the number of bankruptcies nationwide. The State of New Jersey had a 78-percent increase in the number of bankruptcies. The State of Arkansas had a 78-percent increase. Kansas had a 73-percent increase. The State of Missouri had roughly 53 percent. In 1983 there was only a 3-percent rise nationally in bankruptcies. My Region VII increased by 37.7 percent.

To answer your question, we are 35 percent worse off than anybody else in the Nation, if you look at it from the bankruptcy side.

An annual business survey released in June by Alexander Grant & Company, a Chicago-based accounting and consulting firm, stated that Missouri is better than average as a place for manufacturing but agricultural problems pose a distinct threat. Kansas City itself is a boomtown right now with all the construction that is going on. Even as close as 30 miles around, as Mr. Anson pointed out, farmers and businesses are going broke fast. Many are even going to be in much worse shape by this fall.

The SBA does have some programs that might be helpful. I will just hurriedly mention those.

We have what is called the SBDC Program, which is a small business development program, and we contract with the University to give special attention and special counseling to small businesses throughout the whole United States.

Mr. SKELTON. That is one of the programs the administration wants to eliminate.

Mr. POWELL. The SBDC Program was eliminated originally when SBA was removed from the Federal budget. However, it is part of SBA's budget now and I think it has some merit. I think we have to balance the costs against the benefits.

Mr. SKELTON. You think it has more benefits than not?

Mr. POWELL. I would hope so. I am sure that many people in the University agree that it probably does pay its own way.

Another would be the Service Corps of Retired Executives, or SCORE. This is retired people who have had experience in business. They go out and counsel with people.

Another one is our Small Business Institutes, which sends seniors and graduate business students out to counsel and work with small businesses.

One we think that has not been properly recognized yet is the 503 Program, which is a combination between the local development company, the local business and the Federal Government. The Federal Government will guarantee roughly half of a loan up to $500,000. These programs go along with the old programs we have always had of direct loans and guaranteed loans through SBA. Mr. Simmons was talking about his bank and it seems to me the guaranteed loan portion would fit with many banks. It is not

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used much by banks and it should be. We would guarantee 90 percent of a loan, which would take the pressure off of them.

In essence, we, in the bureaucracy, can only administer and deliver the program which Congress and the President prescribe, fund, and promote. If we are to help rural America and small businesses, we need new programs and new direction.

My Administrator, Jim Sanders, who heads the SBA in Washington, says that we need new priorities and new direction. That has been his goal since he took over 3 years ago.

Helping farm producers to develop value-added products is something we have talked about much in Missouri, where instead of shipping wheat and corn overseas, we have developed it into products which will eventually be sold to the consumer and try and keep those jobs here in our Midwestern States.

I am a part of the new aging phenomenon in America. It is the age of the aged, 65 and older, taking care of the very aged, 85 and older. I think this is a changing generation. Already my four sons have been forced off the land to look for jobs in other places and other towns. My granddaughter, now my great grandson, are but visitors to the land and the community where generations of our family have lived. This pattern is being repeated all across the United States. It isn't just in my family. It is a pattern which can be broken. I think there are some answers, and we have to start working on those.

One, we need to form a "tie that binds" between business, Government, academia, and the farmers. The Kansas City Star said recently:

> It's part of the decades-old story of small-town America, the migration of people, including some of the youngest and brightest, to places that offer more choices and opportunities. It's a tale of attrition that deprives towns of talent.

In my little town of Princeton, I don't like to see the young people having to be forced into leaving there and finding jobs. We need something to keep those young people there in Mercer County. It is corn and cattle country. It is fast getting into a real desperate situation.

Though I abhor the costs of big Government, of which I am a part, the Government must take the leadership role in this partnership.

I feel that wise and efficient management of our tax money demands a reexamination of priorities and a reexamination of programs designed to help. You as a representative of the people and I as the bureaucrat charged with using our tax dollars well, must find a way to reverse this picture of economic disaster here in Missouri.

Mr. Chairman and Jan, I think you can do something immediately that might be helpful, that is, to call together the congressional rural caucus, along with the Congressional Clearing House for the Future and reexamine the last half of 1985 and look very seriously at the last half of this decade. I think that can be a starting place where we can get some things down.

I believe, and Jan mentioned this earlier, that two very positive steps can also be taken. If the Congress would pass a budget that will cut $50 million or more from the Federal deficit, it has got to

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have a positive effect. I believe that passing of the President's tax simplification plan would fit very well at this time.

Even if small business were not our mandate, there are many reasons to be concerned for its welfare here in region VII.

Mr. Chairman, I appreciate the opportunity to be here. I will be glad to try and answer any questions.

Mr. SKELTON. Thank you so much.

[Mr. Powell's prepared statement follows:]

PREPARED STATEMENT OF WILLIAM A. POWELL, REGIONAL ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION, REGION VII, KANSAS CITY, MO

Congressman Skelton, fellow Missourians, I am delighted today to be here. My name is Bill Powell and I am the SBA Regional Administrator in Region VII. My region includes the states of Missouri, Kansas, Iowa and Nebraska. I am pleased that you have scheduled this hearing on the problems of the rural economy. I regret there are problems. But it is important that we direct our attention toward determining the size and parameters of the subject and then addressing the difficulties.

Missouri's farm and small business problems are shared with our eight border state neighbors. The rural economy is a disaster. From my base at SBA, I see a desperation in the farm and small business community, a tightening down of the banking and financial community that I haven't seen since the 1930's. Today is a mirror image of that time. The concerns of the farmer and small business person are inseparable.

Typical of the problems facing Missouri are those reflected in an article which appeared in the Topeka Capitol Journal of June 10 which reported that there were 17 Kansas banks with delinquent loans exceeding their capital. Another 42 banks reported delinquent loans equaling at least half their capital. In addition, seven Kansas banks failed last year, another this year. The situation in Nebraska and Iowa is worse. Missouri may well be the worst of all.

The failing economy in the state of Missouri is reflected in recently published bankruptcy figures. In 1984 there were 1644 bankruptcies as opposed to 1075 bankruptcies in 1983, which is an increase of 52.9%. Missouri's failure rate was the fourth worst in the nation. Ranking below New Jersey which was first, our neighbor Arkansas second, and Kansas third. In 1982 bankruptcies increased to 44% in Region VII. Nationally bankruptcies rose sharply to 56.3%. In 1983 when there was only a 3% rise nationally, the bankruptcy rate increased to 37.7% in Region VII.

Another important indicator of small business decline can be seen in new business incorporations. The number of new business incorporations decreased from 20,203 in 1983 to 20,100 in 1984.

An annual business survey released June 10 by Alexander Grant & Co., a Chicago based accounting and consulting firm, stated that Missouri is a better-than-average place for manufacturing, but agricultural problems pose a distinct threat. Unless the agricultural problems are solved soon here in Missouri and the rest of SBA's Region VII, the Midwest will be the home of empty plants, empty warehouses and never-occupied office buildings and apartment complexes.

Kansas City is the boom city of Region VII, but 30 miles out of the city limits businesses and farms are flat busted. Many more will be in tragic circumstances by fall. An analysis accompanying the Alexander Grant & Co. study stated: "This agricultural crisis also has torn the social fabric of rural America. Rural towns are being boarded up as businesses close and residents move elsewhere to find work." "There is," the Grant study says, "an increase in family violence, alcoholism and divorce as farmers and small business people struggle to cope."

The hope of agriculture is no longer in increased production. Our domestic market is saturated and our international markets are now feeding themselves through improved techniques and technologies exported by us or given to them. Businesses dependent upon agriculture must diversify, relocate and try again.

Business—and here in Missouri and the Midwest it is largely small business—wants a skilled work force. Without skills and disciplines, small businesses will die. Missouri is fortunate to have high quality schools and universities providing degrees in science and engineering.

SBA is utilizing that fine quality of higher education in a partnership which provides services necessary for the development of small business. Our Small Business Development Centers (SBDCs), which are university based research and counseling

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centers, provide management assistance, training and specialized services to small business owners.

Our Service Corps of Retired Executives (SCORE) and our Active Corps of Executives (ACE) provide free and expert service to small firms. Our small Business Institutes, organized on our college and university campuses, make senior and graduate business students available to small businesses for on-site management of companies. Our Small Business Innovation Research Program only recently became known to inventors as a potential for business growth and innovation.

The local development company loan program which began in 1980 provides important assistance to small business. This program provides long-term loans for the purpose of construction and the acquisition of plant, land, machinery and equipment, backed up by an SBA guarantee up to 50% of a loan up to $500,000.

These programs are but footnotes to the programs which have been with SBA since the agency was founded—the direct and guaranteed loan programs.

In essence, we in the bureaucracy can only administer and deliver the programs which Congress and the President prescribe, fund and promote. But, if we are to help rural America and small business we need new program direction. As Administrator Jim Sanders has stated, "We need new priorities and new direction."

Helping farm producers to develop value added products, develop markets for the value added products, helping small businesses diversify their operations to produce those new products, and helping universities develop programs to train their students will help the rural economy, rural Missouri, the Midwest and America.

I am part of the new aging phenomenon in America. It is the age of the aged, 65 and older, caring for the very aged, 85 and older. I see a changing generation. Already my sons have been forced off the land to find jobs or create job opportunities in the small businesses of small towns of Missouri. My granddaughter and now my great-grandson are but visitors to the land and the community where generations of our family have lived.

That pattern is being repeated all across Missouri, indeed, all across the Midwest. It is a pattern which can be broken, if we form the tie that binds among business, government, academia and the farm. What we are talking about is what Dan Gillmor stated in the Kansas City Times: "It's part of the decades old story of small town America—the migration of people, including some of the youngest and brightest, to places that offer more choices and opportunities. It's a tale of attrition that deprives towns of talent."

Ike, I don't like to see my home town of princeton deprived of its people, and I don't like to see the countryside of Mercer County deprived of its corn and cattle, but it's inevitable unless the partnership of which I speak is developed. Though I abhor the enormous costs of government, of which I am a part, it is government which must take the leadership role in this partnership.

I feel that wise and efficient management of our tax money demands a re-examination of priorities and a re-examination of programs designed to solve the problems. You, the representative of our people, and I the bureaucrat charged with using our tax dollars well must find a way to reverse the picture of economic disaster here in Missouri.

I believe that two very positive steps toward solving our problems will occur when Congress adopts a budget that cuts fifty billion dollars or more from the Federal deficit and approves the President's tax simplification plan, or something very similar to it.

Even if small business were not our mandate, there are many reasons to be concerned for its welfare here in Region VII. Small business and agriculture are interdependent in the Midwest states and action must be taken immediately to avert the disastrous consequences awaiting.

Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any question the Committee may have.

Mr. SKELTON. Dr. Heffernan and Judith Heffernan, please.

TESTIMONY OF DR. WILLIAM D. HEFFERNAN, PROFESSOR, AND JUDITH BORTNER HEFFERNAN, RESEARCH ASSOCIATE, DEPARTMENT OF RURAL SOCIOLOGY, UNIVERSITY OF MISSOURI, COLUMBIA, MO

Dr. HEFFERNAN. Mr. Chairman, we appreciate this opportunity to share some of our concerns about the farm crisis and impact it is having on rural communities. These hearings are especially signifi-

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cant because they highlight the economic and social problems that many of our rural communities are facing as the consequences of the farm problem ripples through our rural economy. What started out to be a farm problem has become a rural problem. A recent study predicts the effects will move beyond the rural areas into the larger society.

As farm families and families involved in the agribusiness industry begin to feel the impact, all the merchants in our small communities will begin to experience negative consequences. As the private sector reduces its economic activities, the impact will also be felt in the local public sector.

Recently I attended a meeting in which the county commissioners from 10 counties in the northeastern part of the State reported what was happening in terms of their own local communities. They talked about the reduction in local public funding and the impact it was having on their educational, health, and law enforcement systems and all the other public services which are provided in rural areas. In fact, the commissioners were very upset as they began to see the deterioration of their own local communities.

At the outset it was only the smaller farm communities which experienced the impact. Today some of our largest trade centers here in this State and neighboring States are beginning to feel the consequences. Eventually, some of our metropolitan communities, like Kansas City, may begin to feel some impact. Kansas City is the major trade center for portions of several Midwest and plains States in which agriculture provides a major economic base. I guess we could call that the "ripple-up effect."

We must recognize at the outset that agriculture is not the major economic basis for all rural communities. Industry, tourism, mining, and other public and private organizations provide major income sources to rural communities. In fact, here in Missouri, transfer payments—Social Security, pensions, and so forth—are a more important source of income in more rural countries than is farm income.

However, for many rural communities across the country, agriculture is the major source of income. More importantly, the economic base of most of our rural communities is quite fragile. The loss of any important income generator will have a major impact on that community.

Some of the speakers here earlier mentioned the consequences of losing shoe factories. Certainly, in many of our rural communities such a loss has had a major impact. There is a direct effect on those families depending on the factory for income and an indirect effect that ripples through the community.

When farms are lost, the personal consumption of those farm families is lost. More importantly, a major business is lost. In most areas agricultural producers buy most of their supplies and market most of their produce through the local community. The farm economy thus has more impact than many industries which do not depend much on the local community for purchasing their supplies.

Several people have already addressed the consequences of the farm crisis for agribusiness. We will place more emphasis on the farm family and the implications for the rural community. We will discuss a study in which we interviewed families which were forced

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out of farming for financial reasons in a north-central Missouri county. The study identifies some of the human and noneconomic problems we can anticipate in rural nonfarm families who are also experiencing economic hardships.

For the last couple of years my colleague, Rex Campbell, and myself have conducted a statewide farm poll. We received responses from about 2,000 farmers. In 1984, they were asked: "How concerned are you with the debt on your farm?" Of the total 44 percent said their farm had no debt. Only 21 percent said they were very concerned about their debt.

However, three-fourths of the farmers in this country, and 78 percent in this State, have sales of less then $40,000. These small farms contribute a maximum of about $6,000 to the farm family's net income. Most of these farm families have other sources of income. For our purposes, we defined two categories of commercial farms. Medium-size farms have sales between $40,000 and $100,000, and the large farms have sales of more than $100,000. When small farms are eliminated from the analysis, the debt situation is more concerning. Almost half of the remaining farmers are very much concerned about their debt.

The farmers were also asked about their debts and assets. The medium-size farms had an average equity ratio of about 72 percent. For every $100 of assets they had on their farm they owned $72 and borrowed the other $28. For large farms, the average equity ratio was 69 percent.

Agricultural economists at the University of Missouri note that any farmer who has an asset ratio of less than 70 percent faces serious financial problems. Economists and the farmers perceive that about half of the farmers are facing some pretty serious problems.

Last spring, Farm Journal, one of the major farm publications, conducted a financial study of their subscribers. In the study they used 60 percent equity instead of 70 percent as the indicator of serious financial condition. One-third of the Nation's farmers had less than 60-percent equity. The sample was then divided into four regions. Data from the Midwest was quite consistent with the Missouri data. Forty-three percent of the farmers reported an equity of less than 60 percent. Farmers in the east and west regions reported 20 percent and 27 percent, respectively. In the south, 25 percent of the farmers had less than 60-percent equity.

I think the interesting thing is how all these studies really do come back with what the farmers think, what the ag economists tell us, what we get from the national polls, and they are all consistent. We are talking about 43 percent, right about half of our people in the Midwest, are really pretty much up against the wall. For the South it is 25 percent and for the West it is 27 percent and for the East it is 20 percent. As people have said earlier this morning, it certainly is more serious here in the Midwest than it is in other areas.

The financial problems of American farmers is truly a national problem. We have received calls from across the country asking for information from our study. Yesterday we had two calls from Montana, and one from Colorado. A week ago we were in New York State consulting on this issue. Congresswoman Snowe's office in Maine has called us because of problems faced by potato farmers.

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The problem is greatest in the Midwest, but it is moving to other areas.

The impact of the crisis is greatest for younger farm families. Some of our older farmers who tried to help their children get started are also in trouble. Basically, anyone who started farming in the late 1960's or in the 1970's purchased high-priced land and high-priced equipment. More importantly, they received variable interest rates which translated into high interest rates. Show me someone who started farming in the 1970's and I will show you someone who is in trouble in the 1980's.

Two-thirds of the farmers under 35 years of age in the central area are really up against it. (See tables 1 and 2.) Most of them will not survive. Bruce Bullock, chairman of the Agricultural Economics at the University of Missouri notes that 25 percent of the farmers have the bulk of the farm debt. These farmers cannot service their debt and, without assistance, they will not survive. The question is: Who is going to absorb the loss?

[Tables referred to above follow:]

TABLE 1.—PERCENT OF FARMERS WITH LESS THAN 60-PERCENT EQUITY BY AGE AND REGION

Region	Under 35	35 to 44	45 to 54	55 to 64	65 and over
Central	63	61	46	28	10
South	42	45	35	24	6
West	44	43	26	20	15
East	54	27	18	12	9

Note.—From Farm Journal, March 1985

TABLE 2.—PERCENT OF FAMILIES BORROWING FROM SPECIFIC LENDERS AND NOT PAYING DEBT IN FULL WHEN FORCED OUT OF FARMING

	Borrowed from	Not paid in full
FHA	72	63
Commercial bank	70	57
Agribusiness firms (implement, feed, etc.)	50	57
Related private person	28	83
Federal land bank	15	66
Nonrelated person (land contract)	15	57
Production Credit Association	10	50
Landlord	5	33

Dr. HEFFERNAN. An example of a farmer's inability to service his debt comes from a bankruptcy hearing we recently attended. The farmer used a computer program to calculate the prices he would need to survive given his debt. He would need $12 soybeans and $5.50 wheat. These prices are not very realistic at this time. Someone in addition to the farm family will absorb some of that debt.

Given that we can expect to lose more than a fourth of our farmers, we can predict some serious consequences for rural communities.

Let me turn it over to Judy to discuss our study.

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Mrs. HEFFERNAN. I am Judith Bortner Heffernan, a research associate in the Department of Rural Sociology at the University of Missouri.

In January of this year we received a call from the Economic Research Service of the Department of Agriculture requesting information about people who had been forced from farming, for financial reasons.

Bill received a call in the office from Dr. Cal Beale asking if we knew of anyone doing this. Bill indicated that while we did not, in fact, know for sure, we had some very specific ideas about what we thought might be happening and would be most interested in finding out. Little data was available, but a research agreement between the Economic Research Service of USDA and the University of Missouri Experiment Station made our study possible.

We selected a county in the State of Missouri that is one of the top 17 agricultural producing counties. (Seventeen of Missouri's 114 counties produce 50 percent of the State's farm sales.) If it were possible to make a living in agriculture, it would be possible to do so in this county. Second, we selected the county because it was more than 50 miles from a metropolitan area. This made it more difficult for a family to subsidize their farm with off-farm income.

We developed a list of families who had been forced from farming between January 1, 1980, and January 1, 1985. Names were sought from local offices of Federal agencies and banks and from farmers themselves.

Determining whether someone is still farming is not easy. "Going out of farming" is frequently a process over time. If a family's equipment and livestock had been sold, we classified them as no longer farming even if legally they had title to land. On the other hand, some families had all their livestock and good equipment sold, but they still had some old rusty equipment and were going to try to farm "Mrs. Jones' 40 acres down the road" because they have done so for 20 years and she wants them to keep doing it. We considered these families as still farming.

We developed a list of 46 eligible families. Two of those could not be traced. Another family experienced such serious illness that we did not interview them. One family refused to be interviewed. Forty-two families were included in this study.

When I interviewed them, many of those families would say to me: "Mrs. Heffernan, are you also going to interview our friends in the business community? We feel awful about what is happening to them."

The families were very aware of the problems their financial situation created for agribusiness firms. Many of them said to me with tears in their eyes: "These people have supplied us for years, they have stayed with us, we have paid them every dime we could. We are in trouble and we know they must be hurting as well."

The questionnaire itself was designed to take approximately 45 minutes. It was usually difficult for me to leave the house in less than 2 or 3 hours. Many of these people said they couldn't imagine that it would do any good, but that, if it would help others, then they would share this with me.

In almost every case there were tears. I am talking about tears on the part of the farm husband and the farm wife. It was an ex-

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tremely excruciating kind of thing. Furthermore, a number of these families said, "I didn't know that anyone cared."

I think you ought to know who these people are. The study has been able to resolve some of the mythology that is floating around that it is the bad managers that are being forced out of farming. As Bill mentioned, we find that it is those who started in the late 1960's or 1970's that are in the most trouble. They were not big land speculators about whom we sometimes hear. Fifty-eight percent of these people started with all rental land.

The major commodities produced by the families were corn, wheat, sorghum, soybeans, hogs, and beef cattle. The average size farm consisted of about 200 acres owned and 300 acres rented. The average size operation was about 500 acres. The maximum acreage owned by any of these families was 537. The largest farming operation was about 2,100 acres.

Dr. HEFFERNAN. This is especially significant because the economists tell us that a farm between 500 and 600 acres receives most of the benefits associated with economies of size. This simply says that based on averages, these were efficient sized operations.

Mrs. HEFFERNAN. Seventy-five percent of the men were under 45 years of age. If you move that up to 50 years of age, you take in 90 percent of the farm families. As Bill mentioned, those who were older were either trying to bring a child into the operation during the 1970's or they had a parent that died in the wrong year leaving them with siblings that wanted their share of the inheritance.

Thirty percent of these people had more than a high school education. Less than 10 percent had less than a high school education. Mr. Powell pointed out earlier that it tends to be the brightest and the best that are in the most trouble. Indeed, that is exactly what we found.

These families were not marginal persons in the social life of the community. I interviewed the county treasurer, a former head of the local Pork Producers Association, and a former head of the County Cattlemen's Association, as well as persons who had served on the county extension council. The talents of many of these young families are no longer available to this rural community.

We are talking about people who were involved in farming and in the social life of their community. Nearly all of them were members of churches and they attended regularly. They were involved, young, vibrant families.

Dr. HEFFERNAN. A study that we read just before beginning the interviews suggested that every farmer that went bankrupt in Iowa left behind about $70,000 of unsecured debt. We asked our respondents from whom they had borrowed and whether they had been paid in full. (See table 2.)

Mr. SKELTON. For the record, we are going to need copies of these slides.

Dr. HEFFERNAN. We will get those for you.

Mr. SKELTON. We will let counsel put them in the correct place in the transcript.

Dr. HEFFERNAN. Fine.

Seventy percent said they had borrowed from commercial banks and 57 percent said they had not paid that back in full when they went out of farming. That means that the commercial banks are

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absorbing part of this loss. This suggests that some of our county banks may, in fact, be quite legitimate when they say they need some special help, as Mr. Simmons has noted earlier.

About the same number had borrowed from FmHA there and almost two-thirds had not paid their debt in full.

We need to underscore other agribusinesses. We are talking about the implement people, the seed people, the fertilizer people, the chemical dealers, and so on.

Mr. SKELTON. The best figure you show on people who are not paid in full is the PCA, is that correct?

Dr. HEFFERNAN. Yes.

Mr. SKELTON. Fifty percent.

Dr. HEFFERNAN. So, again, it is not only the fact that sales are down——

Mr. SKELTON. And 57 percent of them are not paid in full, the implement dealers and the like?

Dr. HEFFERNAN. Yes; not only are their sales down, as everybody has reported here today, but, in addition to that, they are incurring a substantial loss as a result of farm debt that cannot be serviced. As this farm crisis continues we must be concerned about the future agribusiness firms. It is not just a matter of the sales being down. An additional issue is the unpaid farmers' debt they are having to absorb. Unless other arrangements are made, we are going to lose a lot of businesses in farm communities.

Many persons are asking: Who is going to own this land and who will farm it in the future? Perhaps the real question that needs to be asked is what will happen to the whole agricultural infrastructure (those firms which provide the credit, information, equipment, fertilizer, seed, utilities, et cetera) and the markets. Whether the current crisis leads to a change in the structure of agriculture may depend more on what happens to local agribusiness firms than it does on the change of land ownership.

For example, contract hog production has increased dramatically here in the Midwest. Hog production is following the path that poultry production has taken in this country. These integrating firms depend little on the local agribusiness firms for inputs or markets.

Mrs. HEFFERNAN. Earlier today someone commented on some abuse of the bankruptcy laws. I want to point out some of the rather bizarre things that are happening in this connection. I have talked with individuals who have tried their best to make arrangements with their creditors, including agribusinesses, to make payments on their debts. Some families agreed to have a sale and sell almost everything they own. Often their creditors accepted such arrangements since they received more than they would have otherwise, particularly if the family had declared bankruptcy. Unfortunately, the family then received a call from the Internal Revenue Service saying: "Since you sold your assets and they were worth *x* number of dollars, you now owe us — dollars." One of the farm families I had interviewed called me, not knowing anyone else to call. "The IRS has given us 1 week to come up with $70,000 to cover capital gains." They asked, "What are we going to do? We thought we were finally out of this."

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Although the system may be abused by some farmers, the system is abusing some of them as well. Many families do not have adequate information on how to get out of this thing. All they know is how to farm. That is what they want to do.

In addition to this, while we are talking about the economic process, it is awfully important, and we certainly do not wish to diminish that, the focus of the study and what makes it so unique is it was really an attempt to get at some of the social costs to individuals as well as to communities of what is happening here.

Mr. SKELTON. Excuse me. I hate to interrupt but we do have a time limit. The gravel is going to come down at 12:30.

Mrs. HEFFERNAN. Thank you, Mr. Chairman. We are finished.

[Prepared statements of Dr. and Mrs. Heffernan follow:]

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PREPARED STATEMENT OF DR. WILLIAM D. HEFFERNAN, PROFESSOR, AND JUDITH BORTNER HEFFERNAN, RESEARCH ASSOCIATE, DEPARTMENT OF RURAL SOCIOLOGY, UNIVERSITY OF MISSOURI, COLUMBIA, MO

SURVEY OF FAMILIES LEAVING FARMING[1]

A PRELIMINARY STUDY

[1]This research was conducted in agreement with the United States Department of Agriculture, Economic Research Service. We acknowledge with appreciation the assistance of Rex R. Campbell and Susan Elder, Department of Rural Sociology, University of Missouri.

Introduction

In January, 1985, a county in North Central Missouri was selected to be the focus of a study of farm families leaving farming. The county was selected because it was one of the 17 counties in the state which combine to produce 50 percent of Missouri's agricultural products and because it was over 50 miles from a metropolitan area, a distance typically considered to be about the upper range for commuting to off-farm jobs.

The interviewer went into the county and compiled a list of all families who had quit farming between January 1, 1980 and January 1, 1985. Names were sought from the Extension Service, the FLB, PCA, SCS, ASCS, and FmHA, as well as the auctionneers and private bankers in the county. As the interviewing was taking place, the interviewed families were themselves asked to identify others who had quit in the five year period.

Around 60 names were on the original list. Some were found to have quit farming before 1980 and others since January 1 of this year. Others, it was discovered, had been forced by their lenders to hold a farm sale, but had managed to keep a small amount of old machinery and were going to try to farm this year on a few acres not yet taken back by the lenders or ones they could rent from a neighbor.

The final list of eligible families consisted of 46 families, 42 of which were interviewed. Two families had apparently left the area under very difficult circumstances and were not traceable. One family was not contacted for an interview at all, because of very severe recent illness. Only one family refused to be interviewed, citing a desire to be helpful, but an unwillingness to relive what was a very painful and traumatic

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experience for them. Of the 42 interviewed, two had retired. One of these two was in severe financial trouble when he quit. For purposes of our present analysis, these two families have not been included.

In at least 44 of the 46 families, the major reason for getting out of farming was financial. Although those interviewed were never directly asked if they had been foreclosed, a significant number volunteered that they had been forced to liquidate by the lender. The remaining ones got out "while we still have something left." Most of them spoke of continually losing money since 1979.

The Farm Families and Their Family Farms

While the couples interviewed ranged in age from 22 to 64, 75 percent of the husbands and 84 percent of the wives were less than 45 years of age. Ninety percent of the husbands (only 38 percent of the wives) grew up on a farm and 59 percent gave that as the major reason why they started farming.

Only eight percent of the men and five percent of the women had less than 12 years of schooling. Thirty percent of the men and 35 percent of the women had more than 12 years of schooling.

The families had an average of 2.9 children with an average of 2.1 children still living at home. Ninety percent of the families still had at least one child at home.

Today, almost half (45 percent) of the families say they are less active than the average citizen in community groups, organizations or clubs. Most of these said that when they were farming, they were much more active.

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Ninety-two percent of the men and women reported they were members of a church. Two-thirds of the men and three-fourths of the women indicated they attended church at least once a month and 42 percent of the men and 58 percent of the women indicated they attended at least once a week.

Sixty-eight percent of the families started farming after 1965 and one-half started farming in the 70s or 80s. Fifty-eight percent began farming by renting all of their land and over half began farming with another family member, usually their parents.

The median size of farming operation when the farm was the largest was about 500 acres. Of this about 200 acres were owned and 300 acres were rented. The largest farming operation was 2,150 acres. The largest acreage owned was 537 acres.

Fifty-seven percent of the farmers received most of their farm income from corn, wheat, sorghum and soybeans. About one-third of them received most of their income from hogs. A few farmers received their major income from beef and six percent reported that they received about equal income from crops and livestock.

During the time their operations were the largest, about two-thirds of the farm families indicated they farmed alone and the remaining were included in a partnership. The year they quit, 80 percent were farming alone.

During the years when the farm was the largest, the medium gross farm sales was about $65,000. One farm grossed $440,000 in the best year.

Ninety-two percent of the families indicated they had intended for the farm to provide for most of the family's income, but even when the

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farm was the largest, one-third of the men and one-half of the women earned non-farm income. One-fourth of the women contributed at least half of the family's total income from their non-farm job. The farm was the only source of family income for only 34 percent of the families.

The medium gross farm income the last year they farmed was about $50,000. The largest was $220,000. The medium size of operation had decreased to 400 acres (a decrease of about 100 acres from the year the farm was the largest). The families still owned about 200 acres during the last year they farmed.

During the last year of farming, 60 percent of the men and 57 percent of the women had a non-farm job. The farm remained the only source of income for 20 percent of the families.

Only 18 percent of the farmers indicated they bought some new equipment when they started farming or since 1975, whichever was more recent. Eighty-seven percent said they bought used equipment and almost two-thirds borrowed some equipment from a relative. Almost thirty percent borrowed some equipment from a neighbor.

Ten percent felt they could have kept their farm if they could have gotten a non-farm job, but 50 percent said they could not keep the farm even if they had a non-farm job. Although 60 percent of the men had non-farm incomes, only 40 percent indicated they had a full time job.

Thirty-five percent of the farm families felt they could not have kept the farm even if the wife could have found a full time job. Two-thirds of the women already had a job.

Thirty-five percent of the farmers identified persons outside the family who encouraged them to expand. Of these, nine indicated that

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their lender encouraged them. Others listed extension and farm magazines as having encouraged them.

Forty-four percent indicated 1979 was their best year. Only 19 percent listed a year in the 1980s as their best year. No one listed 1982 or 1983.

Social Support of the Farm Family

Eighty-seven percent of the respondents indicated there were family members or acquaintances who seemed to understand and with whom they could discuss their situation. On the other hand, two-thirds indicated there were persons with whom they tried to discuss the situation who did not understand or were not concerned.

Only five families (12 percent) indicated that a church, other organizations, or government agency offered or provided them with any assistance during the time they were leaving farming. The assistance included student loans, money loaned or given, stress seminars and counseling.

The majority of respondents indicated that parents, children, other relatives, close friends, neighbors and the community were supportive during this time. However, the majority indicated that their church was either "not supportive" or "condemned them". Lenders were placed about equally in the four categories ranging from "not at all supportive" to "actively expressed support for the family". When reflecting on what others had done for them that was most helpful, respondents most often mentioned being listened to, encouraged and provided with emotional support. Helping with the sale, giving money, food or more time to repay the loans were also listed.

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Financial Condition of the Farming Operations

Seventy percent could think of assistance that would have helped them to stay in farming. Almost one-fourth of all respondents said they could have stayed in farming if interest rates were lower. Eighteen percent felt FmHA could have been fairer and reorganized their loans. Others discussed the need for high commodity prices and improved agricultural policy. Providing food stamps, Medicaid, helping to find another job and someone in a agency to answer questions were also suggested.

At the time they ceased farming, the farmers reported that their debts about equaled their assets which averaged $275,000. According to their reports, their equity was zero, implying they left no unpaid debts after quitting.

Based on other information we obtained, we are convinced the negative impact on the community of these financially stressed farm families was much greater than a report of zero equity would make it appear. It should be noted, however, that some of the farm families were not bankrupt or foreclosed. They ceased farming because they felt it was financially unsound and they had other sources of income.

One of the problems of determining asset value is that of determining the value of the land. Thirty-eight percent still hold title to a farm, but it is not free and clear. In many of these cases the respondents say the lender could foreclose on the farm at any time, but land is not selling in the county and apparently the lender does not want title to the land at this time. Some farmers who have had all their machinery and livestock sold and who still have title to their land are trying to work out arrangements with friends and relatives in which they

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exchange labor for equipment use. In these cases, real land ownership is questionable. When the farmers consider land value, they usually quote prices on the amount of the debt against the land rather than current market value. Many of the 22 percent who had to let their land go back to the bank also probably used inflated values.

Perhaps more informative with regard to the problem financially distressed farmers create for their rural communities is the proportion of debts which were not paid in full. Seventy percent of the farmers reported having borrowed from commercial banks and FmHA. Over half (57 percent and 68 percent respectively) indicated they had not paid these banks in full. Fifty percent of the farmers had borrowed from other agribusiness firms such as seed and implement dealers. Fifty-seven percent said they had not paid these debts in full. Some related persons, non-related persons, landlords and PCA and FLB accounts had also not been paid in full.

Residence of the Farm Families

Over half (55 percent) of the farm families reported that for a time they continued to live in the same residence even though they had ceased farming. Forty-five percent still live in that residence. This is partly a result of the fact that farms are not selling and the family still has title to the farm even though they could be forced to give up the farm by the lender any day.

Today, of those who have moved out of their former residence, five families have moved to an adjacent county, two families have moved to another county in Missouri and five families have moved out of state.

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Over one-third of the families do not plan to stay were they are now, or are not certain they will be staying where they are. Sixty percent are reasonably sure they will stay in their current community.

Family Stress

The stress on the family is evident on many measures. Ninety-seven percent of the men and 100 percent of the women indicate they became depressed. Over 50 percent of the men and 72 percent of the women still experience depression. As we would predict, almost two-thirds of the respondents reported "withdrawing from family and friends."

Half of the men and one-third of the women reported they became more physically aggressive. Three-fourths of the men and 69 percent of the women reported experiencing "feelings of worthlessness." Sixty-six percent of the men and 81 percent of the women reported experiencing "great changes in moods." The majority also experienced sleeping and eating problems.

About one-fourth of the men and women indicated they had increased smoking. Eighteen percent of the men and 12 percent of the women said they experienced an increase in their drinking.

Over one-half of the men and about one-third of the women reported they became confused. A third of the men and women said they became unable to think or respond logically.

Although these families are no longer farming, they still report about half of the stress symptoms they experienced as they were ceasing the farming operation.

The families reported an average of 8.1 on a scale of 0 (no particular increase) to 9 (a enormous increase) when asked how much the

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stress in their family had increased in the process of leaving the farm. When ask how concerned they were with the effects of stress on their family, they averaged 7.6 on a scale of 0 (no concern) to 9 (a great deal of concern).

Fifty-six percent of the families noticed major identifiable changes in their childrens behavior. School problems, behavioral upsets, increased fears and bitterness were among the changes reported. Anger and frustration over losing their future opportunity to farm the family farm were frequently expressed.

Assessment of Current and Future Well-Being

Relative to January of 1980, 48 percent of the families feel their financial condition today is "much worse" and 15 percent said "worse." Twenty-eight percent said the financial condition was better. The families were a little more positive regarding their family's satisfaction with its quality of life. Forty percent said it was better. A few noted that the anxiety and uncertainty over farming was now largely over. Seventy-nine percent of the families hope they will be better off in five years.

Eighteen percent of the families report their current income is not at all adequate. Thirty-eight percent can meet necessities only. Another 35 percent can afford some of the things they want, but not all the things they want. Eight percent can afford about everything they want and perhaps even save a little money.

Responses to key open-ended questions provided insights into the personal experiences of ending family farming operations, of stressful events associated with the process, and of adjustment difficulties to a new life. The interview concluded with respondents identifying things they wanted Congress to be sure to understand about American family farming as they see it today.

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ADDITIONAL PREPARED STATEMENT OF JUDITH BORTNER HEFFERNAN, RESEARCH ASSOCIATE, DEPARTMENT OF RURAL SOCIOLOGY, UNIVERSITY OF MISSOURI-COLUMBIA

The Effects of the Agricultural Crisis on the
Health and Lives of Farm Families

[Washington, D.C.,
May 6, 1985]

(Prepared for a hearing before members of the Committee on Agriculture, United States House of Representatives. Presented at the Coffee for Jane Fonda, Jessica Lange, Sissy Spacek and other distinguished guests held prior to the hearing and sponsored by WIFE, Women Involved in Farm Economics.)

Mr. Chairman and Members of the Committee:

I am very pleased to be invited to make this presentation to you. In so doing, I will share with you some of the preliminary results of a study my husband and I are in the process of analyzing. The study focused on farm families who left farming for financial reasons.

First, allow me to introduce myself. I am Judith Bortner Heffernan. I am a Research Associate in the Department of Rural Sociology of the University of Missouri, Columbia. For most of the last 16 years I have been teaching courses in marriage and family life education, and other sociology courses, to college and university students.

Although raised a city girl in eastern Indiana, I am now a partner in the soybean, wheat and beef cattle farm on which we live near Kingdom City, in Callaway County, Missouri.

My husband, Professor William Heffernan, is a former farm boy from Bremer County, Iowa. He and I and our 14 year old daughter, Lisa, do the farming on the 450 acres which we own and rent. We are one of the 92 percent of American farm families who have off-farm income. My personal involvement in our farming operation has led to my professional research interest in the key roles played in American agriculture by farm women and farm families. I am also a longtime supporter of farm women's organizations and a proud member of WIFE.

Introduction to the Survey of Families Leaving Farming

While the economic costs and impacts of the crisis in Rural America have been and continue to be fairly well-identified, neither the social and emotional costs to families nor the social impacts on communities have been well-documented. Through a cooperative agreement between the

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United States Department of Agriculture and the University of Missouri Agricultural Experiment Station, we sought to determine some of the consequences for farm families of the continuing crisis in Rural America.

In January, 1985, a county in north central Missouri was selected to be the focus of a study of farm families leaving farming. The county was selected because it was one of the 17 counties in the state which combine to produce 50 percent of Missouri's agricultural products and because it was over 50 miles from a metropolitan area, a distance typically considered to be about the upper range for commuting to off-farm jobs.

As the interviewer, I went into the county and compiled a list of all families who had quit farming between January 1, 1980 and January 1, 1985. Names were sought from the Extension Service, the FLB, PCA, SCS, ASCS, and FmHA, as well as the auctionneers and private bankers in the county. As the interviewing was taking place, the interviewed families were asked to identify others who had quit in the five year period.

Around 60 names were on the original list. Some were found to have quit farming before 1980 and others since January 1 of this year. Others, it was discovered, had been forced by their lenders to hold a farm sale, but had managed to keep a small amount of old machinery and were going to try to farm this year on a few acres not yet taken back by the lenders or ones they could rent from a neighbor.

The final list of eligible families consisted of 46 families, 42 of which were interviewed. Two families had apparently left the area under very difficult circumstances and were not traceable. One family was not contacted for an interview because of very severe recent illness. Only one family refused to be interviewed, citing a desire to be helpful, but an unwillingness to relive what was a very painful and traumatic

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experience for them. Of the 42 interviewed, two had retired. One of these two was in severe financial trouble when he quit. For purposes of our present analysis, these two families have not been included.

In at least 44 of the 46 families, the major reason for getting out of farming was financial. Although those interviewed were never directly asked if they had been foreclosed, a significant number volunteered that they had been forced to liquidate by their lender. The remaining ones got out "while we still had something left." Most of them spoke of continually losing money since 1979.

Characteristics of the Farm Families

While the couples interviewed ranged in age from 22 to 64, 75 percent of the husbands and 84 percent of the wives were less than 45 years of age. Ninety percent of the husbands (only 38 percent of the wives) have grown up on a farm and 59 percent gave that as the major reason why they started farming.

With regard to education, only eight percent of the men and five percent of the women had less than 12 years of schooling. Thirty percent of the men and 35 percent of the women had more than 12 years of schooling.

The families had an average of 2.9 children with an average of 2.1 children still living at home. Ninety percent of the families still had at least one child at home.

Today, almost half (45 percent) of the families say they are less active than the average citizen in community groups, organizations or clubs. Most of them said that when they were farming, they were much more active.

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Ninety-two percent of the men and women reported they were members of a church. Two-thirds of the men and three-fourths of the women indicated they attended church at least once a month and 42 percent of the men and 58 percent of the women indicated they attended at least once a week.

Characteristics of the Family Farming Operations

Sixty-eight percent of the families started farming after 1965 and one-half started farming in the 70s or 80s. Fifty-eight percent began farming by renting all of their land and over half began farming with another family member, usually their parents.

The median size of farming operation when the farm was the largest was about 500 acres. Of this, about 200 acres were owned and 300 acres were rented. The largest farming operation was 2,150 acres. The largest acreage owned was 537 acres.

Fifty-seven percent of the farmers received most of their farm income from corn, wheat, sorghum and soybeans. About one-third of them received most of their income from hogs. A few farmers received their major income from beef and six percent reported that they received about equal income from crops and livestock.

Ninety-two percent of the families indicated they had intended for the farm to provide for most of the family's income, but even when the farm was the largest, one-third of the men and one-half of the women earned non-farm income. One-fourth of the women contributed at least half of the family's total income from their non-farm job. The farm was the only source of family income for only 34 percent of the families.

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During the last year of farming, 60 percent of the men and 57 percent of the women had a non-farm job. The farm remained the only source of family income for 20 percent of the families.

Only 18 percent of the farmers indicated that they had bought some new equipment when they started farming or since 1975, whichever was more recent. Eighty-seven percent said they bought used equipment and almost two-thirds borrowed some equipment from a relative. Almost thirty percent borrowed some equipment from a neighbor.

Ten percent felt they could have kept their farm if they could have gotten a non-farm job, but 50 percent said they could not have kept their farm even if they had had a non-farm job. Although 60 percent of the men had non-farm incomes, only 40 percent indicated they had a full time job.

Forty-four percent indicated 1979 was their best year. Only 19 percent listed a year in the 1980s as their best year, reflecting both bad weather conditions and the depressed condition of the agricultural economy. No one listed 1982 or 1983.

Seventy percent of the respondents could think of assistance that would have helped them to stay in farming. Almost one-fourth of all respondents said they could have stayed in farming if interest rates were lower. Eighteen percent felt FmHA could have been fairer and could have reorganized their loans. Others discussed the need for higher commodity prices and agricultural policy more favorable to farmers. It should be noted that several of the farmers thought the situation in agriculture was so hopeless and the solution to the problems so unlikely that they felt nothing could be done to keep them and many others in farming.

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Social and Emotional Consequences of the Rural Crisis on Farm Families

Family Stress: It is difficult to overstate the tremendous amount of stress experienced by farm families as they are forced to give up their farms and their way of life.

When asked how much the stress in their family had increased in the process of leaving the farm, the families reported an average of 8.1 on a scale of 0 (meaning no particular increase) to 9 (meaning an enormous increase). When asked how concerned they were with the effects of stress on their family, the respondents indicated much concern by averaging 7.6 on a scale of 0 (no concern) to 9 (a great deal of concern).

Behavioral reactions to stress were self-reported by farm men and women. The data in the table indicate both the percentages of those who have experienced the behavior and those who continue to experience it.

Note that 97 percent of the men and 100 percent of the women indicate they became depressed. Over 50 percent of the men and 72 percent of the women still experience depression. As we would predict, almost two-thirds of the respondents reported "withdrawing from family and friends."

Half of the men and one-third of the women reported they became more physically aggressive. Three-fourths of the men and 69 percent of the women reported experiencing feelings of worthlessness. Sixty-six percent of the men and 81 percent of the women reported experiencing "great changes in moods." The majority also experienced sleeping and eating problems.

About one-fourth of the men and women indicated they had increased smoking. Eighteen percent of the men and 12 percent of the women said they experienced an increase in their drinking.

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Over one-half of the men and about one-third of the women reported they became confused. A third of the men and women said they became unable to think or respond logically.

Although these families are no longer farming, they still report about half of the stress symptoms they experienced as they were ceasing the farming operation.

Social workers who have looked at the data are surprised by both the high levels of stress reactions reported and by the continuing levels. They believe that these data indicate a level of stress and perhaps even crisis that must be dealt with in order for these individuals to be able to meet the demands of their changing lives.

Relationships of Stress to Illness: Going beyond these data for just a moment, allow me to note that medical science is increasingly reporting the clear relationship between stress and illness. Researchers generally acknowledge that upwards from 50 percent of illnesses are stress related.

It is important to mention this relationship, because reports from Extension field staff in various areas of rural America tell us that financially pressed farm families are dropping their medical insurance. These families seek to meet their medical needs in the offices of county health departments.

As the tax base in rural counties erodes, county governments are being forced to cut back services, usually including public health services. One rural Missouri county reports that two years ago there were 10 health professionals in the county. Now there are two, a public health nurse and her secretary, both part-time. Clearly, the health of rural America is threatened by this deteriorating condition.

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Marital Conflict: Four of the families in our study were either now divorced or about to be. In every case, conflict between the husband and wife over the farming situation was cited as a significant contributing factor to the divorce.

In other families, the couple noted that marital conflict had indeed increased as the farm situation worsened. Some seemed surprised that the marriage had so far survived the strain.

Impact on Children: One of the relatively undiscussed social costs of the rural crisis is the impact it is having on the children. We asked parents if they had noticed changes in the behaviors of their children and if so what had they noticed. Fifty-six percent answered yes. (Among those answering no were the older families whose children had been gone from home for some years.) It was obvious to me as I observed the scene that some parents were either denying the impact on their children or were so engrossed in handling their own stress that they were oblivious to their children's pain.

Parents who did report changes in their children noted that school grades went down and children's anxieties and fears increased. Demands for attention, crying, rebelliousness, sleep disorders, aggressiveness--all increased.

It was reported that adolescent children, in addition to the above changes, also increased their use of alcohol, became more withdrawn and bitter over diminished social status and being forced to move and change schools. Some teens would try to forego needed shoes and clothing in order to "do anything" to help the family's financial situation. Children reportedly became "very sad" and seemed to "lose their innocence."

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Sons who had been active in 4-H and FFA and who planned to farm the family farm became very angry with their parents. They believe that their future as farmers was being denied them by the family's loss of the farm.

Extension Agriculturalist, Donald Bailey, of the Northeast Missouri Extension Area has compiled a list of changes in children noted by the school systems in the area. This list includes the following:

1. Stress shows on students of all ages - principal reporting
2. Large increase in free lunches - 3 counties reporting
3. Noticeable need for medical attention in some children - 2 counties
4. Need for dental work - 2 counties
5. Students "gobble up" school lunches - 1 county
6. Students come to school hungry - 2 counties
7. Students no longer complain about school lunches - 1 county
8. One school has an agreement with a discount store and a service club to buy shoes for those farm youngsters who need them or any other student.
9. One school is working out an eye glasses purchase plan for students with a local service club. Many students need glasses--a note is sent home--nothing happens.

Level of Social Support of the Farm Family

Of critical importance to families and individuals undergoing major changes in their lives is the amount of social support available to them. Such support is one of the best mechanisms for coping with stress.

Eighty-seven percent of our respondents indicated there were family members or acquaintances who seemed to understand and with whom they could discuss their situation. On the other hand, two-thirds indicated there were persons with whom they tried to discuss the situation who did not understand or were not concerned.

Only five families (12 percent) indicated that a church, other organizations, or government agencies offered or provided them with any assistance during the time they were leaving farming. The assistance

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included student grants, money loaned or given, stress seminars and counseling.

The majority of respondents indicated that their parents, their children, other relatives, close friends. neighbors and the community were supportive during this time. However, the majority indicated that their church was either "not supportive" or "condemned them". Lenders were placed about equally in the four categories ranging from "not at all supportive" to "actively expressed support for the family".

When reflecting on what others had done for them that was most helpful, respondents most often mentioned being listened to, encouraged and provided with emotional support. Helping with the sale, giving money, food or more time to repay the loans were also listed.

Assessment of Current and Future Well-Being

Twelve of the 40 respondents have moved from the county. Five have moved to contiguous counties, two to other counties in Missouri and five to other states. Of these who have left the county, all but one (a laborer) are in occupational categories classified as professional, managerial, sales, technical or are college students. All but one of these families has moved to a town or city.

Twenty-eight of the 40 respondent families continue to live in the county. Of these, five have moved into town. Five have moved to other rural locations, including one who has been forced to move in with relatives. Eight are in the same home they lived in when they farmed and they will likely continue to live there.

Ten of the families still living in the county are in a situation that could only be described as "limbo". They continue to live in the

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farm house, but only until their lender who has foreclosed on them finds a buyer for the property or asks them to move.

Although a few of those who continue living in the county have continued the skilled jobs which they held while farming, for most who remain, the picture is not as encouraging. A few have found work they feel good about and like. Two have gone to college. Five are essentially unemployed and most of the remainder are, at best, underemployed.

Relative to January of 1980, 48 percent of the families feel their financial condition today is "much worse" and 15 percent said "worse." Twenty-eight percent said their financial condition was better. The families were a little more positive regarding their family's satisfaction with its quality of life. Forty percent said it was better. A few noted that the anxiety and uncertainty over farming was now largely over. Seventy-nine percent of the families hope they will be better off in five years.

Eighteen percent of the families report their current income is not at all adequate. Thirty-eight percent can meet necessities only. Another 35 percent can afford some of the things they want, but not all the things they want. Eight percent can afford about everything they want and perhaps even save a little money.

Hints at the Impact of the Rural Crisis on Rural Communities

Although most of the discussion today has dealt with the impact of the agricultural crisis on farm families, problems resulting from this situation are increasingly being experienced by rural communities.

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As the financial troubles of farmers increase, they reduce their purchases from agribusiness firms, as well as from other businesses. The financial condition of these firms then becomes critical. The closings of businesses on Main Street in small rural towns gives evidence of this. Stress among retailers mounts. Within the last few weeks, a Missouri implement dealer who had received his foreclosure notice took his own life.

Another important problem created for rural communities by bankrupt farmers is the proportion of their debts which are not paid in full. A recent study in Iowa found that on the average a farmer leaves $77,000 of unsecured debt when he is forced to quit farming.

In our study, seventy percent of the farmers reported having borrowed from commercial banks and FmHA. Over half (57 and 68 percent respectively) indicated they had not paid these banks in full. Fifty percent of the farmers had borrowed from other agribusiness firms such as seed and implement dealers. Fifty-seven percent said they had not paid these debts in full. Some related persons, non-related persons, landlords and PCA and FLB accounts had also not been paid in full.

Clearly, problems for farmers and farm families became problems for all those dependent on agribusinesses and all other businesses in rural America.

With the private sector deteriorating, it is not long before the public sector is affected. Rural newspapers chronicle the stories of property values declining and tax bases eroding. Officials are often faced with declining populations of taxpayers and shrinking public revenues at the same time the fixed costs of running county governments

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and school districts are increasing. As a result, county services are being cut at a time when there is increasing need for them.

To summarize, the so-called "farm crisis" is indeed causing profound pain and suffering among the farming families most directly affected by it. It seems clear that in many families, two generations of farmers are being forced off the farm. In their wake, the impact of their departure on every institution in their rural communities is becoming clearer. The fabric of rural society in agricultural communities is being threatened.

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PERCENT OF RESPONDENTS REPORTING COMMON REACTIONS TO STRESS DURING RECENT TIMES

Reactions	Have Experienced		Continue to Experience	
	Men	Women	Men	Women
a. Become depressed	97	100	56	72
b. Became withdrawn from family/friends	61	66	26	41
c. Became nauseous, lost appetite	49	47	18	34
d. Could fall asleep at night, but would awake and be unable to return to sleep	77	53	41	38
e. Experienced feelings of worthlessness	74	69	49	41
f. Became restless, unable to concentrate, agitated	72	81	41	38
g. Did anything to keep busy	67	41	46	31
h. Increased smoking	23	25	18	22
i. Increased drinking	18	12	10	6
j. Showed increased fear of things, people	38	31	18	25
k. Became more physically aggressive	49	31	26	9
l. Experienced great changes in moods, from low to high and back	67	81	36	47
m. Became confused	54	31	31	19
n. Became unable to think or respond logically	31	34	13	19
o. Became unusually silent for periods of time	62	53	44	28

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Mr. SKELTON. The Congresswoman from Kansas.

Mrs. MEYERS. I appreciate very much hearing from the entire panel. I am extremely interested in the information that you have given us. Almost everything that I have read has indicated what you have referred to, that it was the large farmers that were getting along all right, while the small farmers were having problems. What you are indicating is that it is the younger farmers, the ones who have gone into farming in the late 1960's, and particularly as late as the 1970's, those are the ones that are having the difficulties for the most part.

I trust that we will have copies of the slides for the record. I think that what you have told us is important. We thank you very much.

Mr. SKELTON. We have made your preliminary study a part of the record and will look forward to receiving copies of your slides. Thank you very much.

I would like to ask Mr. Davis a question if I might.

If you recall, Secretary Block made an assessment that we were on a course of improving the agricultural situation. From what you have heard today, do you agree with what Secretary Block has said or not?

Mr. DAVIS. I think what the Secretary is making a reference to was using, at least the FmHA, the authorities to reduce the interest rates, stretch out payments, et cetera, and this does give them some breathing room and it does lower their cash-flow requirements so they should be able to pay their agrisuppliers.

Mr. SKELTON. Of course we could have questions from now until midnight. However, the transcript will reflect a great deal of knowledge for us.

Counsel, do you have any questions?

Mr. ORBAN. No; I have enjoyed the testimony. I thank all of you very much for coming.

Mr. SKELTON. In summary, let me say that what we have heard today is absolutely devastating. It is a shock to someone who has understood it for some time, but actually what we have heard is even worse than what we have been told by many of our constituents. There is no easy answer. There is no quick fix for this. You can't by one vote in Congress change things and make it better.

What I wish to leave with those of you who have testified is that you have made a record, this record will be made into a report, and it will be furnished to the members of the Small Business Committee. We will also make it available to other Members of Congress, particularly the House Ways and Means Committee and the Budget Committee, which deals with this day in and day out.

I wish we had a crystal ball and could look into the future.

The good doctor and Judith have done this well, and we don't like what we see, particularly what is happening to the young farmer and the fact that no rural resident has been spared the economic crisis of rural America.

Our biggest problem is understanding. It is very easy, I know, for this young lady from Kansas to understand as she lives here. She may not live in a small town but she lives here in middle America. There are those in Congress and elsewhere in Government that really don't have anything to say but, well, yes, they are in trouble

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but it is their own fault; that type of answer. That is not true. We have seen very clearly today that it is not their own fault. The mediocre farmer and the poor farmer are long gone. Some of your fine and outstanding farmers are just hanging on by their fingernails. When they are in trouble, the people who work with them and sell to them and depend upon them, all of them are in trouble. I hope that we can come up with some good suggestions and good thoughts and comments. This is not going to be an easy task, but you have assisted us by sharing with us your time and your thoughts and suggestions. Hopefully, we can do our job and reflect your thoughts in legislation in the days ahead.

Ladies and gentlemen, I appreciate your being with us. Congresswoman Meyers from Kansas, it is great of you to join us.

She is a member, as I mentioned before, of the Small Business Committee and a very valuable member. I am very pleased and proud to have her as a colleague.

Without further ado, we thank you so much for being with us. It is now 12:30 and we will adjourn this hearing.

[Whereupon, at 12:30 p.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

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CRISIS IN THE RURAL ECONOMY AND ITS EFFECT ON SMALL BUSINESSES

TUESDAY, JULY 30, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON EXPORT OPPORTUNITIES AND
SPECIAL SMALL BUSINESS PROBLEMS,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2359–A, Rayburn House Office Building, Hon. Ike Skelton (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN SKELTON

Mr. SKELTON. The subcommittee will come to order.

I wish to welcome all of you and our witness. Today, this subcommittee holds its second in a series of hearings on the crisis in the rural economy and its effect on small businesses.

Our first hearing on this subject was held 1 month ago in Kansas City and it concentrated on the businesses, manufacturers, banks, and service companies that form the economic network in rural America.

Today's hearing will concentrate on the emerging statistical analysis which tends to support the testimony we have received that the retrenchment being felt by small rural businesses is not only real, it is spreading, and could result in higher national interest rates and declining international markets shares, not to mention unemployment and business distress.

Our guest today is Dr. Abner Womack of the University of Missouri and representing the Food and Agricultural Policy Institute. Dr. Womack has taken part in a study that has been recently released in conjunction with the Wharton Econometric Forecasting Associates.

The study was commissioned by the National Corn Growers Association. In a way, however, the study was done in response to a challenge issued by the Director of the Office of Management and Budget, David Stockman.

Apparently, when the agricultural community warned that the failure to assist the farmer could have serious repercussions for the national economy, Mr. Stockman reportedly asked to see any numbers to support that prediction. I think that we will see that the report prepared by Dr. Womack and the others does just that.

Our interest on this panel has been focused on small, rural or agriculturally related businesses with a direct connection to the

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farmer and who have experienced difficulties as a result of that connection.

From the press accounts that I have seen about Dr. Womack's study, it begins to appear that the scope of our inquiry is too limited; that businesses which outwardly have nothing to do with the farm economy may be dramatically affected by the "rural recession" in the not-too-distant future.

Let me also say that I appreciate the effort you have made to appear here on such short notice. We wanted to get your explanation of this groundbreaking forecast in our hearing record, and this was the only opportunity available to us.

Dr. Womack.

TESTIMONY OF DR. ABNER W. WOMACK, CENTER FOR NATIONAL FOOD AND AGRICULTURAL POLICY, DEPARTMENT OF AGRICULTURAL ECONOMICS, UNIVERSITY OF MISSOURI AT COLUMBIA

Dr. WOMACK. Thank you very much, Mr. Chairman and members of the subcommittee, for the opportunity to testify before this very important committee.

My comments are based on a four-pronged study conducted by the Food and Agricultural Policy Institute at Missouri and Iowa State, plus Wharton Econometrics in Pennsylvania.

The research is associated with survey data taken from a financial survey of the national farm economy conducted jointly with the Farm Journal magazine in Pennsylvania, and as you also indicated, the initiative for conducting the survey is associated with a meeting with Governor Branstad of Iowa and Prof. Neil Harl of Iowa State in the fall with Budget Director David Stockman, indicating to him the farm financial crisis warranted national support, and he requested national numbers to back up that statement.

In order to approach this in a research mode, the institute looked at four questions.

The first question: What is the debt situation for U.S. agriculture in total, and by region, type of farm, and type of farm operator?

Second question: What are the prospects of generating farm income sufficient to service this debt?

Third question: What is the projected level of unserviced and discharged debt, and how is it distributed over time?

Fourth question: What are the economy-wide implications if no action is taken to counter the impacts of the farm debt losses?

The first part of this study examines the debt situation for the U.S. agriculture. I am submitting for the record an overview of the study, and I will be discussing the tables in this overview, and refer to those by page as I go through my presentation.

In the first part of this study, in order to examine the debt situation——

Mr. SKELTON. Let the record show, without objection, that the entire study is placed in the record. You have a copy for the reporter, I take it?

Dr. WOMACK. Yes, sir.

[Dr. Womack submitted the following preliminary summary report:]

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A Preliminary Summary Report on Economy-Wide Impacts of the Farm Financial Crisis

FAPRI #9-85

July 1985

by

Abner W. Womack
University of Missouri-Columbia

William H. Meyers
Iowa State University

S.R. Johnson
Iowa State University

Robert E. Young
University of Missouri-Columbia

and

Robert W. Jolly
Iowa State University

Testimony presented by Abner W. Womack to the Small Business Subcommittee on Exports and Special Small Business Problems U.S. House of Representatives

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EXECUTIVE SUMMARY

The financial condition of U.S. agriculture is critical and will not improve under most 1985 farm bill options being considered. Moreover, the financial crisis for agriculture, if not altered by corrective actions aimed directly at the debt load of highly leveraged farmers, is of sufficient magnitude to affect U.S. financial markets and the performance of the national economy. Major results of this study, linking a Farm Journal survey and FAPRI farm income projections to farm loan losses and the Wharton Econometric model of the U.S. economy are:

- Farms with debt-to-asset ratios of 40 percent and over, hold approximately $140 billion of the $210.8 billion total U.S. farm debt. Farms with 40 percent or larger debt-to-asset ratios are likely to experience financial stress.

- The farm debt situation is most serious for younger farmers residing in the Central Region of the U.S. The average debt-to-asset ratio for these farms is 20 percentage points above the national average.

- The surplus capacity situation for U.S. agriculture makes it unlikely that net farm income can be increased beyond $20-25 billion without high government cost. Over the period 1987-1990, direct government costs of $6-7 billion will be required to hold these farm income levels.

- Under current farm income conditions with preemptive measures to address the farm financial crisis, loan losses resulting from farm bankruptcies would be contained at about $10 billion and would have relatively small affects on the U.S. economy.

- Annual principal and interest shortfalls on loan losses with net farm income in the $20-25 billion range and continued high real interest rates are projected at about $4-10 billion.

- Liquidation of 10 to 15 percent of farm assets would be required to service the remaining debt, a rate of liquidation 3-4 times that historically flowing through farm asset markets.

- Under the most optimistic farm program being considered, average net farm income over the next five years will not rise above current levels. If government support programs were removed, net farm income would likely drop by 40 percent during the subsequent three years.

- If current farm income conditions are maintained with no financial assistance measures or if financial programs are offered but commodity support programs are eliminated, the loan losses could be in the range of $20-25 billion.

- Loan losses of $20-25 billion are expected to increase short term interest rates by 75-125 basis points, reduce total employment by 175,000-275,000 jobs, reduce total GNP by $30-50 billion over eight years, and increase the federal debt by $14-21 billion by 1993.

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A Preliminary Summary Report on Economy-Wide Impacts of the Farm Financial Crisis

1. Introduction

Evidence of a serious financial crisis in U.S. agriculture continues to accumulate. Early warnings of this debt/financial crisis have been loan delinquency rate increases, selected rural bank failures, and deteriorating farm balance sheets as indicated by state level surveys. Government data, the Federal Reserve Reports, and the ERS/USDA surveys have confirmed that the farm financial situation is deteriorating. These data and reports, however, were not produced with sufficient lead time to allow effective monitoring of the rapidly deepening farm credit crisis of late 1984 and 1985.

To close the information gap and to assess the extent and magnitude of the farm credit crisis in time for appropriate corrective action, Food and Agricultural Policy Research Institute (FAPRI) joined the Farm Journal magazine in conducting a national survey in December of 1984. The survey was designed to identify the incidence and extent of the farm credit problem at national and regional levels, by farm type and by tenure. With this survey information and farm price and income projections from FAPRI, it was possible to anticipate, under various Farm Bill options, the implications of the farm debt crisis. The magnitude and scope of corrective actions required to deal with the crisis were suggested as well.

The Farm Journal survey confirmed that the farm financial problem was not confined to a few states that had conducted early surveys. In December 1984 the Central and Western regions were worse off than the South and East, but the national average debt conditions were very similar to results of the state

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surveys conducted one year earlier and confirmed estimates made by the Federal Reserve. Of the $211 billion total farm debt, up to $140 billion is held by farmers experiencing financial stress.

The FAPRI analyses of 1985 Farm Bill options revealed a weak farm income outlook for 1985-1990 under the level of income protection provided by current programs. Very low levels of expected net farm income would result if government supports were to be removed. As net farm income declines, the ability of farmers to service outstanding debt is reduced, leading to more liquidation of land and other assets, and lower land values. These conditions increase the number of farmers who become insolvent and the magnitude of loan losses to lenders.

Concern about the potential impact on financial markets of large loan losses led to the Wharton Econometrics Forecasting Associates analysis, which investigated the macroeconomic consequences of the farm financial situation. The Wharton analysis shows that there are potentially serious consequences of the farm debt crisis on the U.S. economy. These impacts are higher interest rates, lower employment, reduced gross national product, fewer housing starts, lower personal income and a larger federal deficit. The Wharton analysis indicates that if preemptive actions are not taken, the loan losses could significantly effect U.S. financial markets. Such outcomes would seriously jeopardize the farm sector and impose important costs for those not directly employed by or involved in agriculture.

The potential negative economy-wide effects of a farm financial crisis and in addition to these the direct adverse impacts on agriculture, call for comprehensive measures to address the problem. Clearly, if farm sector financial failures should rise sharply, actions by the Federal Reserve, the U.S. Treasury, and the U.S. Congress will be required to stabilize farm asset markets and maintain order in the national financial markets. The analyses described below

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and in the complete supporting studies have been developed to give U.S. agriculture and those who determine farm policy, financial market policy, and Federal fiscal policy an opportunity to design corrective actions for the farm financial crisis that are efficient and timely. Early corrective and preventive measures will be less costly than absorbing the impacts of doing nothing or approaching the problem in a reactionary mode. The stakes for agriculture and national economic performance are high.

2. The Approach

A straightforward approach was adopted in projecting economy-wide impacts of the farm financial crisis. This approach is best illustrated by the set of questions that guided the research at FAPRI and Wharton.

- What is the debt situation for U.S. agriculture in total and by region, type of farm, and type of farm operator?
- What are the prospects of generating farm income sufficient to service this debt?
- What is the projected level of unserviced and discharged debt, and how is it distributed over time?
- What are the economy-wide implications if no action is taken to counter the impacts of the farm debt losses?

These relatively simple questions were evaluated using the Farm Journal survey, the FAPRI agricultural sector modeling system, FAPRI financial models and the Wharton long-term model of the U.S. economy.

Results of the research organized by FAPRI to answer these questions are summarized in four reports (listed below) that will be released on July 31, 1985, at a briefing to be led by Professor Lawrence Klein, Nobel Laurate and Professor of Economics at the University of Pennsylvania. This preliminary report summarizes the analyses presented in Reports 1-4.

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Report #1 - "National Farm Survey on Financial Stress," Farm Journal and FAPRI at the University of Missouri-Columbia and Iowa State University, July 1985.

Report #2 - "An Analysis of the Variable Loan Repayment Option for the 1985 Farm Bill," FAPRI at the University of Missouri and Iowa State University, July 1985.

Report #3 - "Farm Income and the Financial Condition of United States Agriculture," FAPRI at Iowa State University, July 1985.

Report #4 - "Economy-Wide Impacts of Agricultural Sector Loan Losses," Wharton Econometrics Forecasting Associates, July 1985.

3. The Debt Situation for U.S. Agriculture

Information on this question is drawn from the Farm Journal and supporting surveys now available for states and the U.S. as a whole. The analysis of this information is presented mainly in Report #1 with additional results provided in Report #3. In the Farm Journal survey, 8,000 owner-operators were randomly selected from a Farm Journal computer panel containing ..1 million names. About 1,600 responses were received to a four page mail questionnaire. Of the questionnaires returned, 1,232 were useable for the analysis contained in Reports #1 and #3. Comparing this survey to national probability sample surveys from ERS/USDA indicates that both smaller and larger than average farms were overrepresented, but this limitation of the data was more than offset by its timeliness. Preliminary results were published two months after completion of the survey (Farm Journal, March 1985).

Major results from the analysis of the Farm Journal survey are summarized in Tables 1 and 2. Table 1 contains information on the distribution of U.S. agricultural debt by debt-to-asset ratio. The debt-to-asset ratio measures relative indebtedness and is a simple indicator of financial stress. Generally, farmers with debt-to-asset ratios less than 40 percent are not experiencing severe financial stress. As shown in Table 1:

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- The majority of farms are in the low debt to asset ratio category. About 69 percent of farms have debt to asset ratios of 40 or less and hold only 37 percent of the farm debt.

- Farms in the 40 percent and over debt to asset ratio categories composed about 31 percent of the total and hold about 63 percent of the farm debt.

- About 27 percent of farm debt is held by the 14 percent of farm operators with debt to asset ratios of over 70 percent. Farmers in this category will have a difficult time correcting their financial problems.

Much of the outstanding agricultural debt is held by a minority of U.S. farmers who are highly leveraged.

Table 2 contains information from the Farm Journal survey on average debt-to-asset ratios by age group and region. As shown in Table 2:

- The national debt to asset ratio is about 26 percent.

- Debt asset ratios are highest in the Central region and lowest in the East.

- Younger farmers have relatively high debt-to-asset ratios. The debt-to-asset ratio of farmers 44 years of age or younger is 10 percentage points above the national average.

4. The Net Farm Income Prospects

The FAPRI agricultural sector models have been used during 1985 to evaluate projected outcomes for U.S. agriculture under various options for the 1985 Farm Bill. Two of the options evaluated are the free market program advanced by the Administration (AAA85) and a variable loan repayment program (VLRP) that contains some of the elements in current proposals put forth by Senate and House members. The Administration program evaluated in March 1985 features loan rates and target prices that adjust to market price levels, and base acreage levels that adjust to actual planted acres. The essential result of the Administration program is that by 1991 the three year moving average loan rate is the only potential buffer for farm prices and income.

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The VLRP is a stylized option for the 1985 Farm Bill. It reflects a concern voiced in many existing proposals that the move to a free market agriculture requires a transition program to cushion the impact. This program, as applied in the FAPRI analyses, involves a four-year freeze of loan and target prices and of base acreages through the 1989/90 crop year. Diversion and deficiency payments are used to manage supply. The name given the VLRP was coined from a feature of the program that permits participating farmers to pay back the loan at the market price or the loan rate, whichever is lower. With the VLRP the loan rate does not set a de facto floor on market prices. This aspect of the program along with the loan and target prices assures more stable farm income but more competitive price levels for U.S. agricultural commodities. The price path under the VLRP approximates that under the AAA85 option.

Results of the comparative evaluation of the AAA85 and VLRP options are shown through 1990 in Table 3. For the analysis, general economic conditions in the U.S. and foreign economies were assumed to be similar to those during 1984-85. Evaluation of the VLRP in July 1985 incorporates more recent information reflecting higher commodity stocks and lower exports. Details on these assumptions, the features of the programs and the outcomes for major crop and livestock commodities are provided in Report #2 and a comparison study noted in Table 3. The results of the farm program analysis are:

- Annual net farm income remain in the 21 to 27 billion dollar range under the VLRP, near the levels for 1985 obtained under the 1981 program.
- Annual net farm income fall to about 14 billion in 1988 under the AAA85 proposal and do not recover to the 20 billion dollar level within the 5-year period of analysis.
- Direct government payments average near 1985 levels under the VLRP and decline in later years, and no payments occur under the AAA85 after 1988.

In general, the FAPRI farm policy analyses do not paint a bright picture for U.S. agriculture. These findings reflect a substantial excess capacity situation in

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U.S. agriculture at current loan rates, indicating that high government costs are required to maintain net farm incomes near 1985 levels.

5. The Projected Debt Discharge

Estimates of the level of asset and debt liquidation required to achieve short term financial stability are presented in Report #3. The stability criterion chosen was that the farm businesses be able to service outstanding debt. An allowance for capital replacement or risk reserve was not included. In addition, this analysis estimated the likely volume of loan losses as well as the principal and interest shortfalls that would occur under a range of economic conditions.

Major results from the projected financial analysis for U.S. farm firms are provided in Tables 4 and 5. Table 4 presents estimates of the volume of assets and debt that would have to be liquidated so that the remaining debt could be fully serviced. The cash rate of return expresses net cash income as a percentage of the value of gross assets owned by the operator. The recovery rate of capital measures the cash proceeds available for debt reduction following liquidation of an asset. The recovery rate takes into account both transaction costs and declines in asset market prices. Estimates of operators selling out were obtained by assuming that operators go out of business when they have a zero or negative equity position after all of their assets were liquidated to retire existing debt. Debt charged off reflects debt remaining after liquidating all assets of these farmers. These charge-offs are losses that must be absorbed by agricultural lenders and other creditors.

The interest and principal shortfalls were estimated at current debt and asset levels (Table 4). The "lower income" case is suggested by the net farm income stream projected by FAPRI for the AAA85 option. The "current income" case corresponds to income streams like that projected for the VLRP option. The

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"improved income" case reflects a net farm income in the 30-35 billion range, exceeding that expected under any likely 1985 Farm Bill option.

From Tables 4 and 5, the major conclusions are:

- Approximately one-half of the outstanding farm debt cannot be fully serviced at current income and rates of interest. This figure increases to two-thirds in the lower income case.
- Annual principal and interest shortfalls from farm owner-operators are estimated at $2-9 billion over the four year evaluation depending on farm income levels and interest rates.
- Seven to seventeen percent of commercial agricultural assets in the U.S. will need to be liquidated in order to service the remaining outstanding debt; a liquidation rate three to four times the volume historically flowing through farm asset markets.
- For the more likely economic conditions evaluated, approximately 4 to 8 percent of the existing farm debt could be discharged by liquidated farm operations, respresenting a loss of $10-20 billion to all agricultural creditors.

Even under current farm income conditions, loan losses could be significant. If farm income falls, as expected under a program like AAA85, farm financial conditions deteriorate and loan losses increase substantially. This serious potential loss to the financial and agribusiness sectors stimulated interest in the Wharton study of macroeconomic impacts of the financial crisis in U.S. agriculture.

6. Economy-Wide Impacts

The macroeconomic effects of the agricultural loan default were estimated using Wharton's Long-Term Model of the U.S. economy. The Federal Reserve Board, the Administration, and the U.S. Congress are assumed to intervene as the loan defaults occur to insure the stability of the U.S. financial system. This intervention would be reactive rather than preemptive; actions would respond to loan defaults and actual or imminent failures of the affected financial

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institutions. Preemptive actions, on the other hand, could reduce or eliminate the estimated negative macroeconomic repercussions of the agricultural sector loan default.

The main direct macroeconomic effect of the agricultural sector loan defaults would be an increase in short-term private interest rates due to the public perception of substantially higher risks being associated with financial asset holdings. This perception of increased risk would occur despite prompt action by the financial authorities, such as was the case for the Continental Illinois National Bank. Despite FDIC guarantees for all deposits, outflows become unduly large because of the inherent unease (perceived risk increase) associated with keeping deposits in a potentially failing bank. Although agricultural debt is dispersed among many creditors, the impact of large and widespread defaults on commercial banks and the Farm Credit System is expected to be sufficient to affect national financial markets.

The farm loan defaults had three direct impacts on the U.S. economy:

- Higher short-term interest rates due to the increased public perception of financial asset risk.
- Higher interest rate risk premiums in the agricultural credit market, reflecting the high rate of agricultural sector loan default.

The evaluations of impacts of the farm financial crisis were conducted under four scenarios. These scenarios are defined in Table 6. The VLRP and AAA85 programs evaluated together with the analysis in Report #3 yielded differing assumptions on the total loan loss. The extreme case on the high loss side assumes no income maintenance programs and no financial assistance programs. The scenario with the lowest loan loss is a case where income maintenance programs continue at current levels and preemptive financial assistance programs are in place.

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The total losses were distributed across the years 1985-88 using the FAPRI net farm income estimates. Potential loan losses are higher under the "free market" option, due to the lower farm income available to service debt. Short term interest rates are expected to respond strongly to the large loan losses in 1987. Specifically, from Figures 1 and 2:

- The public loses confidence in the private financial sector due to loan defaults, leading to a run-up in private short-term interest rates, peaking in 1987 when the loan default rate is highest.

- Longer-term commercial bond rates rise by more moderate amounts than the private short-term rates but remain above baseline levels for a longer period of time.

The major economy-wide impacts are caused by these short term interest rate movements, - 75-125 basis points for loan losses in the "middle range" of $20-25 billion compared with 25 basis points when loan losses are reduced to $10 billion.

Results of the Wharton evaluation for the middle range of loan losses ($20 to $25 billion), relative to the baseline outlook, are illustrated by Figures 3, 4, and 5, for the federal debt, employment, and gross national product.

The major conclusions of the Wharton analysis are:

- By 1993, the federal debt will be $13.7-21.5 billion larger.

- In 1989, between 175,000 and 275,000 jobs are lost in the entire economy.

- In constant 1985 dollars, Gross National Product is reduced by $8.6-13.7 billion in 1989. The cumulative losses in real GNP over the 1985-93 period are $30-49 billion.

These impacts are compared in Table 7 with those generated by higher and lower loan loss assumptions. These suggest a trade-off between the costs of income maintenance and financial assistance programs and the consequences for the economy of ignoring one or both of these preemptive measures. It would be prudent to consider early, comprehensive measures to correct the farm financial

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crisis rather than to attack it on a piece-meal or crisis-reaction basis. Clearly, loan losses at the high end of those evaluated will not occur, because countervailing actions will be taken. The question is whether these actions can be less costly if they are managed and coordinated through legislation and administrative initiatives not developed on a reactionary basis.

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Shink, George R. and John M. Urbanchuk, "Economy-wide Impacts of Agricultural Sector Loan Losses," Wharton Econometric Forecasting Associates, July 1985.

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Table 1. National Agriculture Debt Distribution Estimated From Farm Journal Survey.

Debt/Asset (Percent)	% of Farms	% of National Debt	% of Agricultural Assets
00-10	39.5	2.9	36.8
10-40	29.4	34.2	37.1
40-70	17.5	36.3	18.5
70 Plus	13.6	26.6	7.7
Actual Levels	1.67 mil.	$210.8 bil.	$951.7 bil.

Source: A. Womack, et. al., "National Farm Survey on Financial Stress," FAPRI Staff Report #6-85, July 1985.

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Table 2. Agricultural Debt to Asset Ratios by Region and Age Group Estimated from Farm Journal Study.

	Age					All Age
	Under 35	35-44	45-54	55-64	Over 65	Groups
Region	D/A	D/A	D/A	D/A	D/A	D/A
Central	52.1	43.4	38.0	22.5	11.0	34.3
West	31.2	29.6	22.1	25.8	16.7	25.2
South	20.8	37.1	20.8	21.0	4.0	19.7
East	51.4	26.4	21.3	10.7	8.5	20.3
Weighted National Average	35.9	37.3	26.9	22.4	7.4	26.1

Source: R.W. Jolly and D.G. Doye, "Farm Income and the Financial Condition of United States Agriculture," FAPRI Staff Report #8-85, Iowa State University, July 1985.

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Table 3. Farm Income and Government Payments Under the Administration (AAA85) and Variable Loan Repayment (VLRP) Programs.

	Date	Program	1983*	1984*	1985	1986	1987	1988	1989	1990
						($ billion)				
Direct Government Payments	July 1985	VLRP	9.30	8.00	5.90	6.20	6.30	5.90	5.80	6.00
	Mar. 1985	AAA85	9.30	8.00	5.12	4.75	3.26	0.47	0	0
Net Farm Income	July 1985	VLRP	16.40	35.30	23.70	24.70	27.40	26.10	23.80	21.60
	Mar. 1985	AAA85	16.40	35.30	24.63	21.13	16.50	13.50	15.78	16.25

Sources: VLRP- "An Analysis of the Variable Loan Repayment Option for the 1985 Farm Bill," FAPRI Staff Report #7-85, University of Missouri-Columbia and Iowa State University, July 1985.

AAA85- "The Administration Proposal for the 1985 Farm Bill: An Evaluation and Analysis," FAPRI Staff Report #3-85, University of Missouri-Columbia and Iowa State University, March 1985.

*Actual USDA figures.

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Table 4. Annual Interest and Principal Payment Shortfalls with Current Debt and Asset Levels, United States.

	Current Income 1/	Lower Income 2/	Improved Income 3/
Interest ($ billion)	1.12	3.22	0.26
Principal ($ billion)	3.68	5.64	1.89
Total ($ billion)	4.80	8.86	2.15
% debt not fully serviced	52.9	65.3	29.5
% debt with interest not fully paid	21.7	44.5	7.8

1/ Cash returns of 7.5 percent on capital, mean interest rate of 10 percent.
2/ Cash returns of 6.5 percent, interest rate of 12 percent.
3/ Cash returns of 8.5 percent, interest of 8 percent.

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Table 5. Estimated Annual Asset Liquidation Required to Service Remaining Debt, United States.

	Current Income 1/	Lower Income 2/	Improved Income 3/
	%	%	%
Assets liquidated	9.9	16.8	6.6
Debt liquidated	34.0	48.0	25.6
Debt charged-off	3.9	8.5	2.1
Operators selling out	8.1	14.6	5.2

1/ Cash returns of 7.5 percent on capital, capital recovery rate of 85 percent.
2/ Cash returns of 6.5 percent, capital recovery rate of 65 percent.
3/ Cash returns of 8.5 percent, capital recovery rate of 100 percent.

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Table 6. Financial Impacts of Agricultural Sector Loan Losses Under Four Scenarios.

Program, Loan Loss and Interest Rate Effects	Year 1985	1986	1987	1988
Hard Landing (Free Market Income Levels)				
Large Loss ($30 billion, No Financial Assist)				
Loss Pattern (Billions $)	2	10	33	5
Short-Term Rate Increase (Basis Points)*	10	60	275	125
Medium Loss ($25 billion, With Financial Assist)				
Loss Pattern (Billions $)	2	4	16.5	2.5
Short-Term Rate Increase (Basis Points)*	10	25	125	75
Soft Landing (Current Income Levels)				
Medium Loss ($20 billion, No Financial Assist)				
Loss Pattern (Billions $)	2	4	12	2
Short-Term Rate Increase (Basis Points)*	10	20	75	40
Small Loss ($10 billion, With Financial Assist)				
Loss Pattern (Billion $)	2	2	5	1
Short-Term Rate Increase (Basis Points)*	10	10	25	10

*This is the increase for the private short-term (6 month commercial paper) rate. Government sector interest rates were unchanged between the default scenarios and the baselines.

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Table 7. Key Macroeconomic Impacts of Agricultural Sector Loan Losses.

Economic Variable	Loan Loss Scenario			
	Free Market Income		Current Income	
	No Assist $50 billion	Assist $25 billion	No Assist $20 billion	Assist $10 billion
Federal Debt Increase (Billion $, 1993)	$42.2	$21.5	$13.7	$5.1
Real GNP Decrease (Billion 1985$, 1985-93)	-$96.7	-$49.0	-$30.9	-$12.2
Employment Decrease (Thousands, 1989)	-560.	-275.	-175.	-64.

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Figure 1
Middle Range of Short Term Interest Rate Impacts

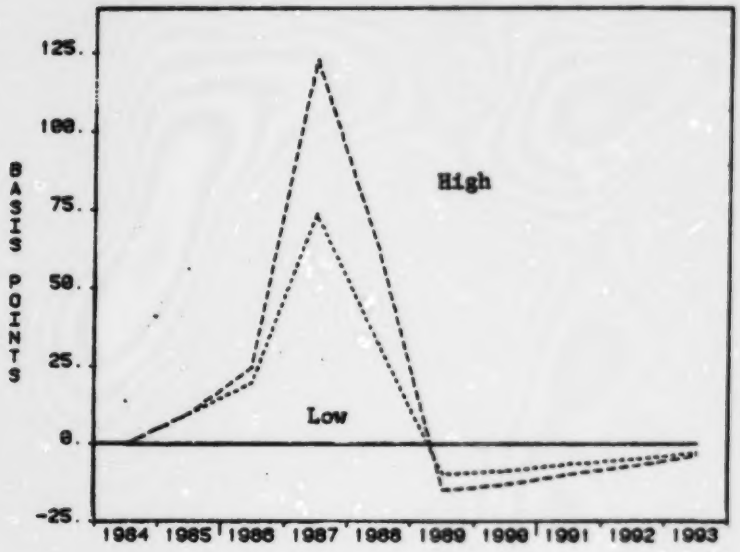

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Figure 2

Middle Range of Long Term Interest Rate Impacts

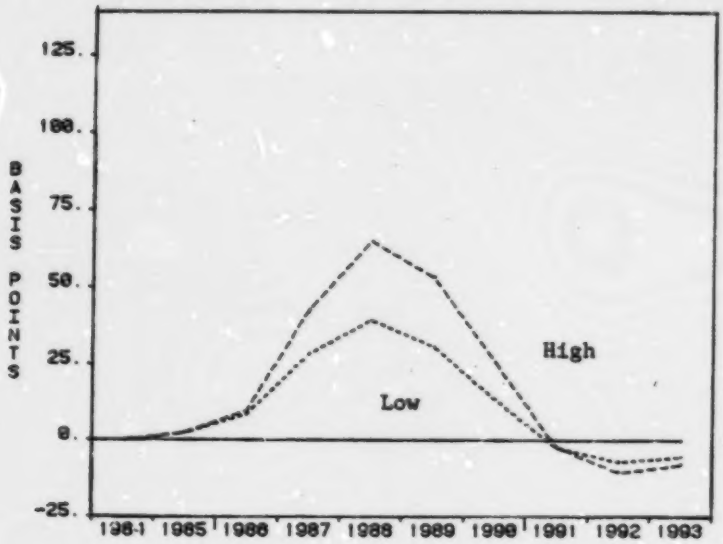

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Figure 3

Middle Range of Cumulated Federal Debt Impacts

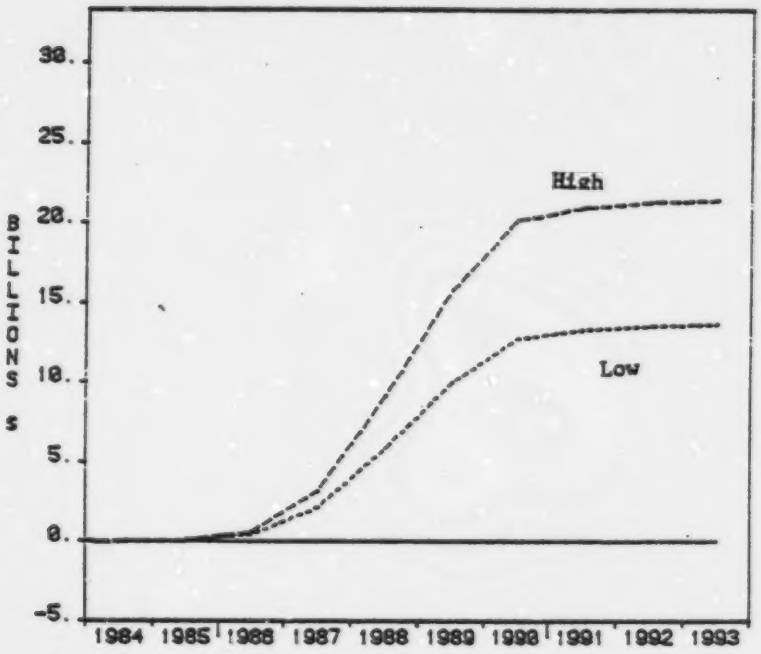

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Figure 4

Middle Range of U.S. Employment Impacts

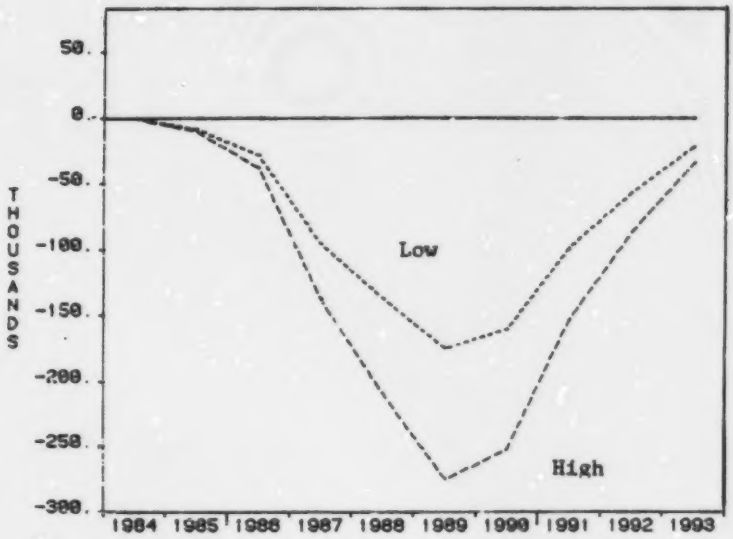

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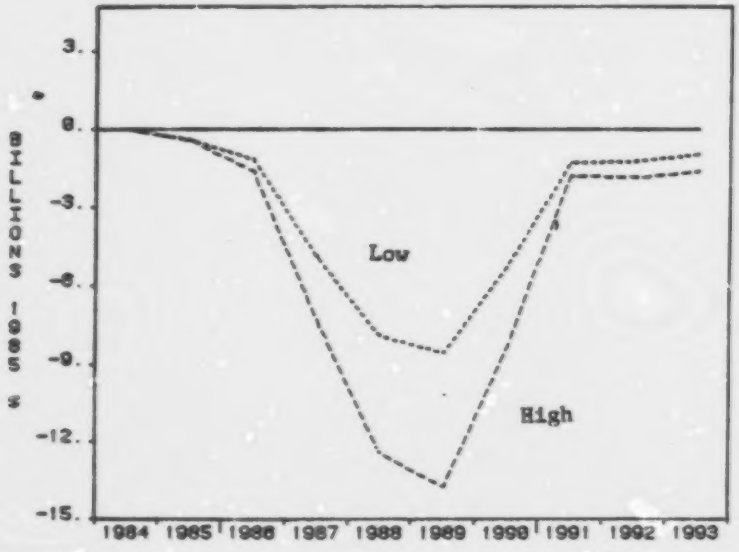
Figure 5

Middle Range of Real GNP Impacts



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Dr. WOMACK. The first of this study, the debt situation for U.S. agriculture, comes from information drawn from the Farm Journal magazine survey, and in that survey, 8,000 owner-operators were randomly selected from a Farm Journal computer panel containing 1.1 million names.

About 1,600 responded and we were able to use approximately 1,232 of the respondents in our analysis.

Mr. IRELAND. Mr. Chairman, if I could interrupt a second. What was the geographic distribution of those, did you include some of my citrus growers?

Dr. WOMACK. It was a national survey and primarily owner-operators would be the names in the data bank. It is a subscription data bank the Farm Journal has.

Mr. IRELAND. The Farm Journal does not cover the citrus industry at all.

Dr. WOMACK. No; I don't think we did pick up very many. We may have gotten some of your beef and livestock people.

Mr. IRELAND. The Farm Journal having a direction primarily to, say, feed-grain farmers makes the survey itself slanted; it could give you crop distortions, geographical errors. Were any of those things addressed?

Dr. WOMACK. We are concerned about it. We went to the Farm Journal magazine because they had the subscription list available, and it was the biggest data list we could pull from to get a quick turnaround, but we knew we were going to pick up the owner-operators, and picking up more crop and livestock than any other kinds of operators, and so, we were very careful to examine the distribution that we got back, and in fact, we got a larger distribution of medium-sized farms than you would expect from a national survey.

Instead of getting small farms, instead of 75 percent, we got 45 percent, so we got a distribution that is somewhat stacked toward the larger farmer.

Mr. IRELAND. Not only the large farmer, but you probably left out vegetable farmers, citrus, cattle, and dairy farmers.

All I am saying is your base statistics are not the kind of research that academically would pass a stringent test, is that right?

Dr. WOMACK. There are several ways to come at that. At the time we did the analysis, several States had conducted their own survey, and so, we had some benchmarks from the national survey for comparison.

Also, the USDA published a 490 report in February, and last February came out with an additional report, and the data that we are receiving seems to be confirmed by other studies, that we do have a financial problem and we are concerned about the magnitude of size of the survey, which is small.

And second, that it is from an owner-operator data base, we have to be careful about conclusions we draw.

Let me go through those.

Mr. IRELAND. I am surprised, Mr. Chairman, that so much effort is put into such a weak base. I am an advocate of the farmer, but I have a difficult time building a case from a flawed beginning.

Dr. WOMACK. It is a question of not a flaw. My background is statistics, I have a master's degree in mathematical statistics, and I am aware of sampling problems.

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We would have preferred to have had a national survey. We would have preferred to have gotten that through the USDA and SCS. We made a repeated request for those on the national level.

We are not geared up to run national surveys. We are a policy research institute, and evaluate farm programs.

Mr. IRELAND. By we, you mean Wharton?

Dr. WOMACK. Food and Agricultural Policy Institute at Iowa State University. We have values of the agricultural industry and evaluate farm program designs and run them out 5 years, and looked at six or eight different designs this year, and the administration's program announced in February, the market-oriented loan program, continuation of the 1981 program, and so forth.

That is our primary focus. However, we were aware that we would be in the middle of the farm debate this year without any financial information on a national basis to back up our analysis.

We saw that as a major hole, and we looked for the quickest way to get a benchmark, and the flaws that you have pointed out are certainly of concern to us, but at the same time, there are several ways to cross-check this survey, and the USDA had a rider on their cost of production survey in January that has just come out, and seems to confirm the problem is more serious than what we found here, but let me go through the analysis.

Mr. IRELAND. Thank you.

Dr. WOMACK. You can judge for yourself on what we found. First, in the survey, some of the characteristics that we found in general were that the farmers who are in financial trouble are high renters, and in general, in the Midwest, for example, those farms were an average of 800 acres and only 250 acres of that land was owned, so in general the characteristic of the farmer in trouble is a high renter.

Second, they are young, and in general below the age of 35. They have low off-farm income compared to other farmers. They have a high cash flow operation, and they were not necessarily aggressive in land buying, since they are primarily large renters.

They are more likely to be pork and crop producers and most likely to be in the central region. However, we found stress in all regions and the operation was large.

Also, another indication of stress is in this particular table which reflects the number of observations in each region that were taken.

For example, in the central region, 310 observations; in the east, 283; south, 270; and the west, 366; and total for the United States, 1,229.

The first red cell locates the number of respondents with no real estate debt, and you can see that a fairly large number of American farmers are in pretty good shape.

On the right-hand side, the average indicates 44 percent had no real estate debt. This would indicate that 56 percent of the respondents did have real estate debt.

We asked them whether they were current on principal and interest, and 98 percent were current on real estate principal and interest. When we asked the operators their position on operating debt, out-of-pocket moneys to produce the commodities, the number that had no operation debt was 39 percent nationally.

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This means that 61 percent did have operating debt, and we begin to see the financial pressure show itself in that only 90 percent of those with operating debt were current.

This would say that 10 percent of the 61 percent were not current, and this is a number that normally shows up, and that is that about 5 to 6 percent of our farmers are in financial trouble this year, and may not make it.

Mr. IRELAND. Your figures show that 2 percent are not current on principal and interest on real estate debt.

Dr. WOMACK. 10 percent are not current.

Mr. IRELAND. How does that compare with families not in the farming business?

Dr. WOMACK. I am not sure what that comparison is.

Mr. IRELAND. I operated banks, Mr. Chairman, for a long time, and if 2 percent were not current, that would be a small amount. How does that compare with people nationwide in other businesses and other activities loans current or noncurrent?

Dr. WOMACK. I have seen those numbers, but I can't quote them. In general, we would expect in the agriculture community only about 1.5 percent of the farmers per year to go out because of financial problems.

Mr. IRELAND. That is a different thing, going out of business. This doesn't say anything about them. The 2 percent might not be current, but that doesn't mean they are going to disappear.

Dr. WOMACK. This is only an indicator, and that is the best we could get out of this.

Mr. IRELAND. Your implication is, that it is high. I am not sure that you are making the case that it is high, because you have not compared it with any other parts of the economy. So it seems to me that the implication that this is a terrible, disasterous figure is not supported in your conversation.

Dr. WOMACK. Not so far. Why don't we proceed and look at the rest of the study? I would simply say that this is just a first indicator, the first benchmark, and 61 percent that do have operating debt and 10 percent are behind, so a 6-percent number is consistent with the numbers we found on other surveys that farmers may be forced out this year, because of financial problems.

This is another way of saying that our survey——

Mr. IRELAND. You are not implying because 61 percent have debt that this is bad? The use of debt is an important criteria for operating business.

Dr. WOMACK. The 10 percent is a more important number here, and whether it is a significant number or not, you are debating that.

Am I reading that correctly?

Mr. IRELAND. Are you reading what correctly?

Dr. WOMACK. Your comments.

Mr. IRELAND. I have trouble when somebody implies that people that are borrowing 56 percent on their fixed assets and 61 percent on their operating concern that is supposed to be economically bad.

Credit built this Nation, and to imply that because somebody is using credit, there is something wrong, is a false premise.

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To imply that, because 2 percent are behind on their real estate we have a disaster is wrong. They can be behind for an awful lot of reasons.

Also, you have not been able to answer the benchmark question of how does that apply and compare to other segments of our economy.

Dr. WOMACK. Granted, I do not know that comparison number. I have seen it, but don't want to quote it. I am not certain of a number, and I don't want to quote it.

Mr. IRELAND. Could we have that number? That is the only way we can investigate these allegations that so much is wrong. It would be appropriate if we could have those numbers. Can we have staff get them for our records, Mr. Chairman?

[Information requested above follows:]

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United States House of Representatives
Committee on Small Business
Subcommittee on Exports and Special Problems
B-363 Rayburn House Office Building
Washington, DC 20515

August 13, 1985

Honorable Parrren Mitchell
Chairman
Committee on Small Business
2361 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Mitchell:

This subcommittee recently held a hearing regarding the rural economy and its effects on small businesses. During the hearing, the loan default rate in the farm sector was discussed. At that time, Congressman Ireland requested information regarding the loan default rate in other sectors of the economy and how it compares with the loan default rate of the farm economy.

For inclusion in the hearing record, would you have the Committee's staff economists provide this subcommittee with the requested information.

If you should have any questions please contact Russell Orban at 5-9368.

Thank you.

Sincerely,

IKE SKELTON
Chairman

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AREA CODE 202

September 6, 1985

Honorable Ike Skelton
Chairman
Subcommittee on Exports and Special Problems
B-363 RHOB
Washington, DC 20515

Dear Mr. Chairman:

This is in response to your letter of August 13, 1985, concerning loan default and failure rates in the agricultural and other sectors of the economy. I have enclosed information on the failure rate in the nonfarm, nonfinancial sector as reported by Dun & Bradstreet; information on the foreclosure rate on home loans as reported by the Mortgage Bankers Association of America; a report on the agricultural financial situation prepared by Emanual Melicher, Senior Economist, Board of Governors of the Federal Reserve System; and a recent report on farm land values prepared by the Economic Research Service of the U.S. Department of Agriculture

An alarming theme runs through these reports; i.e., debt and default problems are widespread -- the rate of business failures is at a half-century high, the rate of home loan foreclosures is the highest on record, the default rate on farm loans has more than doubled since 1979, and farm land values have dropped as much as 50 percent in the past four years in some states.

I hope this information is useful in your work. Clearly you have touched upon a very serious underlying weakness in the current economic "recovery."

With warm regards,

Sincerely,

Parren J. Mitchell
Chairman

Enclosure

PJM:khv

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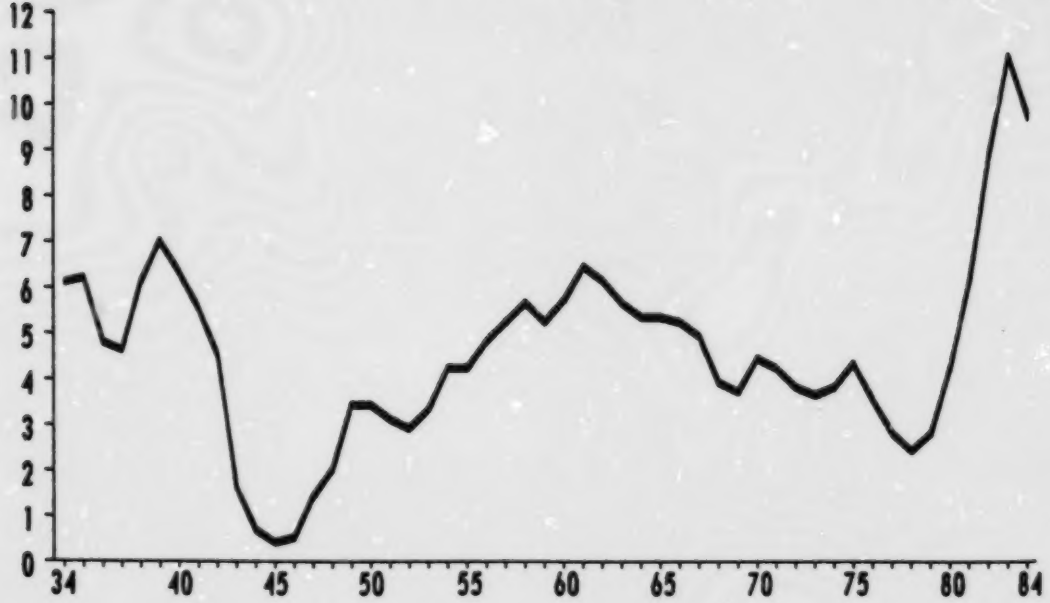
Business Failures: No. Per 1,000



Source: Dun & Bradstreet

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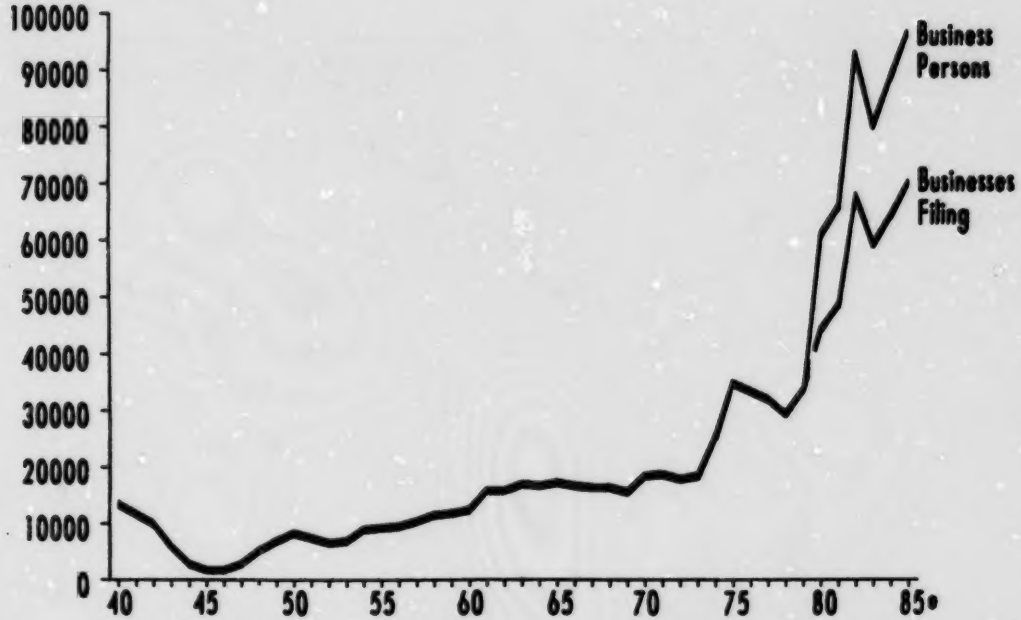

•Projected based on first quarter 1985.

Source: Administrative Office, U.S. Courts

ILLUSTRATION 5-2 BUSINESS PERSONS FILING FOR BANKRUPTCY

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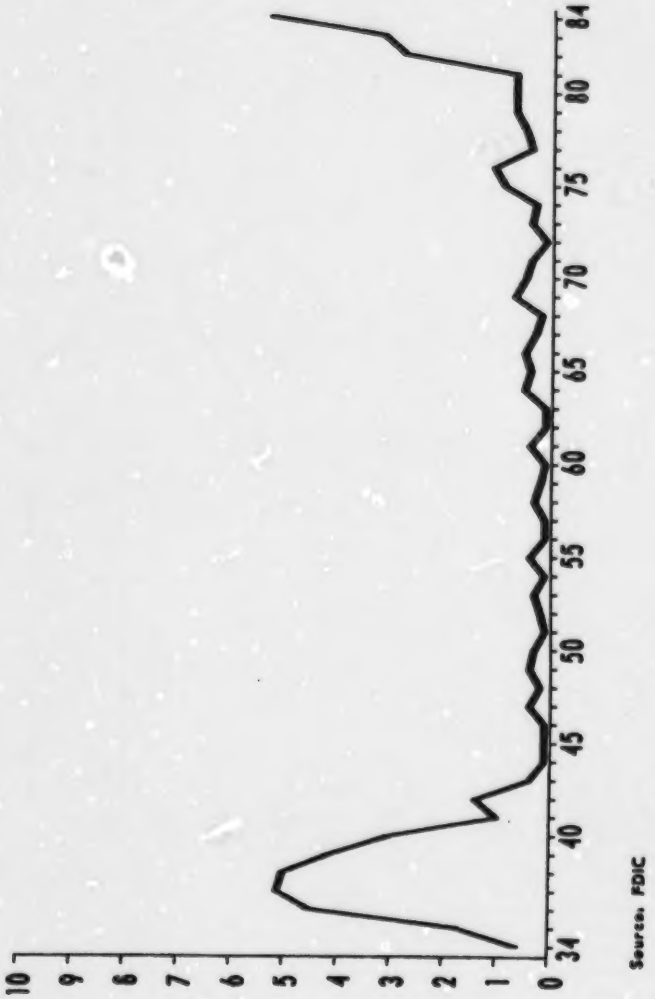
ILLUSTRATION 5-3 COMMERCIAL BANK FAILURES: NO. PER 1000



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Source: FDIC. End of year except for 1985.

ILLUSTRATION 5-4 TROUBLED BANKS

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Source: FHLBB

ILLUSTRATION 5-5 THRIFT FAILURES

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Issue Brief

Order Code IB84106

HOUSING AND MORTGAGE FINANCE DATA:

TWENTY-SIX STATISTICAL TABLES

UPDATED 08/21/85

BY

Richard Bourdon Susan VanHorenbeck

Economics Division

Congressional Research Service

0823

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TABLE 18. Mortgage Delinquency and Foreclosure Rates
(Percent of all Loans)

Year-Quarter	Residential Loans 90 Days or More Past Due	Residential Loans in Foreclosure at End of Quarter
1974 - I	0.45%	0.51%
1975 - I	0.51	0.49
1976 - I	0.51	0.38
1977 - I	0.56	0.43
1978 - I	0.53	0.38
1979 - I	0.47	0.31
1980 - I	0.54	0.32
1981 - I	0.66	0.44
II	0.58	0.41
III	0.65	0.41
IV	0.68	0.44
1982 - I	0.72	0.53
II	0.68	0.55
III	0.79	0.62
IV	0.89	0.67
1983 - I	0.86	0.71
II	0.75	0.66
III	0.84	0.66
IV	0.91	0.67
1984 - I	0.89	0.68
II	0.79	0.63
III	0.90	0.68
IV	0.98	0.73
1985 - I	0.98	0.79

Source: Mortgage Bankers Association. National Delinquency Survey of over 9 million mortgages.

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TABLE 19. States with Highest and Lowest 90-Day Delinquency Rates First Quarter 1985 and First Quarter 1984 (Percent of All Loans)

		Residential Loans 90 Days or More Past Due		Residential Loans In Foreclosure at End of Quarter	
		I-85	I-84	I-85	I-84
Highest					
1.	Illinois	2.27%	2.46%	1.67%	1.90%
2.	North Dakota	2.26	2.03	2.58	1.39
3.	Wyoming	2.23	2.11	3.66	1.23
4.	Oklahoma	1.63	1.05	1.27	0.80
5.	West Virginia	1.62	0.64	0.22	0.31
6.	Utah	1.57	1.18	1.00	0.90
7.	Arkansas	1.55	1.40	0.65	0.40
8.	Montana	1.54	1.11	1.04	0.61
9.	Wisconsin	1.48	1.59	1.94	1.39
10.	Ohio	1.45	1.44	1.37	1.37
Lowest					
1.	Maine	0.20	0.56	0.29	0.36
2.	Rhode Island	0.25	0.75	0.22	0.36
3.	New Hampshire	0.26	0.38	0.12	0.09
4.	Massachusetts	0.44	0.43	0.18	0.18
5.	Virginia	0.51	0.52	0.22	0.16
6.	North Carolina	0.54	0.48	0.39	0.31
7.	Florida	0.57	0.69	0.83	0.51
8.	Nebraska	0.65	0.57	0.82	0.71
9.	New York	0.67	0.58	0.45	0.42
10.	Kentucky	0.68	0.84	0.87	0.70

Source: Mortgage Bankers Association. National Delinquency Survey of over 9 million mortgages. Issued quarterly.

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Fannie Mae Credit Squeeze May Block Many Younger Home Buyers

By Jane Bryant Quinn

It will soon be even tougher to buy your first home. And tougher for middle-income families to trade up to a much more expensive house. D-Day is Oct. 15, for the most significant tightening up of the mortgage market that the younger generation has ever seen.

Starting then, one of the biggest investors in home mortgages—the Federal National Mortgage Association (known as Fannie Mae)—is going to make it harder for you to buy a house. The new rules will especially affect buyers with a down payment of less than 10 percent cash. Other major mortgage investors are expected to follow suit.

Why does it matter to you what investors do? The reason: because of a radical change in the mortgage market in recent years, which most home buyers don't know anything about.

Nowadays, when you borrow money to buy a house, the lender probably will not put that loan in his vault. Instead, he will sell it to an institution that invests in mortgages. You'll never learn that your mortgage now belongs to someone else. You just keep on making monthly payments to the original lender, who subtracts a handling fee and sends the rest of your payment to the investor.

Recently, major mortgage investors have started to worry about the soundness of their investments. Foreclosures are up, and because of flat or falling real estate prices in many parts of the country, investors can't always be sure of getting all their money back after a loan goes into default.

As a result, they are getting more cautious about the mortgages they'll buy. A bank or savings and loan still can make whatever mortgages it wants. But if it wants to resell them to an investor—as most lenders now do—it has to jump to the investor's tune.

Here are the new rules that will start affecting many home buyers in October:

- You will need a higher income to qualify for a mortgage, especially if you plan to pay less than 10 percent of the house price in cash. To buy a $76,500 house, with a 5 percent down payment and a mortgage at 12.2 percent, will require an income of $41,232, compared with only $36,814 today.
- You will have to cover at least 5 percent of the down payment with your own money, in addition to any help you get from family or friends.
- Sellers, builders and real estate agents will not be allowed to make big cash contributions to the deal to make the house seem more affordable. (These payments are often recouped by inflating the price of the house.)

One popular form of contribution is the "buydown," which finances a mortgage-rate discount in the early years of the loan. There's a new, lower limit on the buydowns allowed on fixed-rate mortgages, especially when you put less than 10 percent down. As a result, monthly payments will go up. No buydowns at all will be permitted on adjustable-rate loans, regardless of the size of your down payment.

If mortgage rates fall, home buyers may not feel these changes very much, says Leon T. Kendall, head of the Mortgage Guaranty Insurance Corp., because lower rates will offset the effect of tougher borrowing standards. But if interest rates rise, cash-shy buyers will be doubly frozen out: by the higher monthly payments and by the tighter income and down-payment rules.

There are still some strategies left for buyers without a lot of cash:

- If you're close to a home-buying decision, make it now. For the next few weeks, most S&Ls and other lenders will be granting mortgages on the current, more generous terms. "A majority of our S&Ls will make the push to lend as much as they can," predicts Dennis Jacobe of the United States League of Savings Institutions.
- Apply to a mortgage banker who specializes in FHA loans. Although lenders are looking harder at all low-cash applications today, FHA loans should still be generally available to borrowers with only 3 to 5 percent down. But there are limits on the size of the mortgage you can get, so FHA loans are useful only for middle-priced houses.

Veterans Administration loans, for qualifying veterans, can still be had for no down payment at all, if the lender permits.

- Talk to several lenders about how large a loan you can get. Some may plan to sell your loan to an investor who isn't as strict as Fannie Mae, in which case you may get more generous terms.
- Save money. "Ultimately, first-time home buyers will have to save up more money before leaping in order to purchase a home of their own," Jacobe says. That's the way it used to be, in the days before runaway real estate inflation, and that's the way it's going to be again. ■

WASHINGTON BUSINESS/AUGUST 19, 1985

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National Delinquency Survey

Prepared by the MBA Economics Department
May 31, 1985

Mortgage Bankers Association of America
1125 FIFTEENTH STREET, N.W. • WASHINGTON, D.C. 20005

DATA FOR MARCH 31, 1985
AND FOR 1st QUARTER 1985

The national delinquency rate for all types of mortgage loans on one- to four-unit residential property reached an historically high level of 6.19 percent in the first quarter of 1985. This increase plac es the delinquency rate 36 basis points above the previous record-high of 5.83 percent in the third quarter of 1984, and 37 basis points over the 5.82 percent rate of the last quarter.

Almost all of the 6.4 percent increase in the delinquency rate was caused by a significant jump in the number of problem loans in each of the two government-backed loan categories. The largest increase was in FHA-insured mortgage loans, where delinquency rates rose from 7.39 percent to a record 8.13 percent. The delinquency rate on VA-guaranteed mortgage loans also reached an all-time high, rising 53 basis points, from 6.60 to 7.13 percent. The delinquency rate on conventional mortgage loans also registered an increase in the first quarter. By comparison, however, its rise was a fairly small one, rising by only seven basis points to 4.11 percent.

Breaking the overall mortgage delinquency rate into its component parts, reveals that 70.0 percent of the increase can be attributed to the one payment past due category. The percentage of loans that were 30 days late rose 26 basis points, from 3.95 percent to 4.21 percent during the first quarter. The gains for each of the three major loan types ranged from a low of 10 basis points for conventional loans to a high of 54 basis points for FHA-insured loans. Fortunately, the increases in the more serious delinquency categories were not nearly as sharp. In the first quarter, the percentage of loans that were two payments in arrears rose 8 basis points to 1.03 percent, and the delinquency rate on loans 90 days or more past due increased by only 3 basis points to 0.95 percent.

TEXT NUMBERS ARE SEASONALLY ADJUSTED UNLESS OTHERWISE NOTED.

Consistent with the upward trend in delinquencies, the rate of foreclosures started during the quarter rose by 5 basis points to 0.24 percent. Similar to the delinquency rate increase, the bulk of this rise was due to increases in the number of foreclosure proceedings initiated on government-backed loans. The largest increase was reported for the VA-guaranteed loan category where the rate of foreclosures started rose 6 basis points to an historic high of 0.27 percent. For the quarter, the rate of foreclosures initiated on FHA-insured loans went up 5 basis points to 0.30 percent, and the conventional loan rate rose by 2 basis points to 0.17 percent.

On a regional basis, each of the four areas of the country had delinquency rates in the first quarter that were substantially higher than the levels reported for the same period last year (regional delinquency rates are not seasonally adjusted). For this twelve month period, the largest increase was registered in the South, where delinquency rates went from 5.04 percent to 5.83 percent, a jump of 79 basis points. This was followed by the North Central region, where delinquency rates rose from 5.73 percent in the first quarter of last year, to 6.41 percent, an increase of 63 basis points. Between the first quarter of 1984 and the first quarter of 1985, delinquency rates for the Western region of the country rose 52 basis points, from 5.01 percent to 5.53 percent. The smallest twelve month increase was reported in the Northeast, where mortgage delinquencies rose to 5.64 percent, an increase of 30 basis points.

Rises in delinquency and foreclosure rates tend to be symptoms of a sluggish economy. Thus, the anemic 0.7 percent rate of real growth in GNP during the first quarter may have contributed to the high delinquency and foreclosure rates found in that quarter. In addition, the continued stickiness of the unemployment rate, and the drop in real earnings during the first quarter may be placing increased financial pressures on the average homeowner. Further, with modest property value appreciation, and with many sectors of the economy expected to continue growing at a slow pace, e.g., manufacturing, no significant improvements in delinquency and foreclosure rates appear likely in the second quarter.

SEASONAL ADJUSTMENT

The historical data in this issue of the MBA National Delinquency Survey have been seasonally adjusted using the X-11Q Variant of the Census Method II Seasonal Adjustment program. This procedure is done once each year to ensure that the survey gives consistent information. As a result of the adjustment, some previously published data have been slightly revised. The table below presents the seasonally adjusted figures for the past two years.

DELINQUENCY RATES OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS
Seasonally Adjusted

END OF QTR	ALL LOANS					CONVENTIONAL LOANS					VA LOANS					ALL FHA LOANS				
	PERCENT OF LOANS																			
	Total Past Due	Installments Past Due			Fcls started	Total Past Due	Installments Past Due			Fcls * started	Total Past Due	Installments Past Due			Fcls * started	Total Past Due	Installments Past Due			Fcls started
		30 Days	60 Days	90 Days or more			30 Days	60 Days	90 Days or more			30 Days	60 Days	90 Days or more			30 Days	60 Days	90 Days or more	
1983																				
1st	5.75	3.94	0.98	0.83	0.21	4.20	2.84	0.72	0.64	0.14	6.14	4.20	1.05	0.89	0.23	7.16	4.95	1.20	1.01	0.26
2nd	5.61	3.84	0.94	0.83	0.23	3.91	2.69	0.66	0.57	0.16	6.08	4.12	1.03	0.93	0.26	7.04	4.85	1.16	1.03	0.28
3rd	5.31	3.58	0.89	0.84	0.21	3.57	2.42	0.61	0.54	0.15	5.89	3.92	1.00	0.96	0.24	6.84	4.68	1.12	1.06	0.26
4th	5.69	3.91	0.93	0.85	0.21	3.86	2.65	0.64	0.57	0.17	6.23	4.24	1.02	0.97	0.24	7.21	4.96	1.16	1.09	0.24
1984																				
1st	5.47	3.69	0.92	0.86	0.19	3.66	2.46	0.64	0.58	0.13	6.13	4.10	1.01	1.02	0.23	7.08	4.81	1.17	1.10	0.23
2nd	5.50	3.75	0.87	0.88	0.21	3.68	2.50	0.62	0.57	0.16	6.16	4.18	0.96	1.02	0.24	7.08	4.87	1.09	1.12	0.25
3rd	5.83	3.99	0.94	0.90	0.25	3.99	2.72	0.67	0.60	0.18	6.63	4.52	1.08	1.03	0.27	7.53	5.19	1.19	1.15	0.30
4th	5.82	3.95	0.95	0.92	0.19	4.04	2.76	0.68	0.60	0.15	6.60	4.45	1.07	1.08	0.21	7.39	5.00	1.21	1.18	0.25
1985																				
1st	6.19	4.21	1.03	0.95	0.24	4.11	2.86	0.67	0.58	0.17	7.13	4.73	1.21	1.19	0.27	8.13	5.54	1.34	1.25	0.30

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MORTGAGE BANKERS ASSOCIATION OF AMERICA

STATE, AREA AND CENSUS REGION	ALL LOANS							CONVENTIONAL LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE		NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	138,680	4.95	3.38	0.87	0.70	0.32	0.12	116,312	4.69	3.32	0.86	0.51	0.28	0.11
MAINE	36,852	3.97	3.04	0.73	0.20	0.29	0.08	29,591	3.67	2.82	0.70	0.15	0.23	0.06
MASSACHUSETTS	80,994	3.85	2.79	0.62	0.44	0.18	0.06	58,396	2.58	1.85	0.41	0.32	0.08	0.04
NEW HAMPSHIRE	18,861	3.41	2.61	0.54	0.26	0.12	0.05	12,196	1.96	1.46	0.34	0.16	0.05	0.03
RHODE ISLAND	20,495	3.01	2.28	0.48	0.25	0.22	0.07	17,083	2.60	1.94	0.45	0.21	0.22	0.07
VERMONT	1,201	5.08	3.25	1.00	0.83	0.50	0.17	286	3.50	2.45	0.35	0.70	0.35	0.00
NEW ENGLAND	**298,883**	**4.30**	**3.05**	**0.74**	**0.51**	**0.28**	**0.09**	**238,864**	**3.65**	**2.70**	**0.68**	**0.47**	**0.21**	**0.08**
NEW JERSEY	310,649	4.98	3.22	0.88	0.89	0.84	0.20	198,625	2.98	2.07	0.51	0.41	0.29	0.05
NEW YORK	477,872	6.29	4.80	1.02	0.67	0.45	0.11	347,652	5.06	3.83	0.80	0.43	0.25	0.07
PENNSYLVANIA	245,976	6.82	4.29	1.21	1.32	1.16	0.35	119,995	4.42	2.71	0.79	0.92	0.65	0.15
MID ATLANTIC	**1,034,497**	**6.02**	**4.11**	**1.02**	**0.89**	**0.74**	**0.19**	**666,272**	**4.35**	**3.13**	**0.72**	**0.50**	**0.38**	**0.09**
ILLINOIS	232,488	8.90	5.18	1.45	2.27	1.67	0.46	85,220	3.20	2.05	0.50	0.65	0.45	0.09
INDIANA	189,003	6.88	4.92	1.06	0.90	1.11	0.35	58,747	4.04	3.20	0.48	0.35	0.40	0.18
MICHIGAN	444,701	6.04	3.96	1.04	1.04	0.57	0.26	251,915	3.46	2.39	0.56	0.49	0.20	0.15
OHIO	238,242	7.50	4.84	1.21	1.45	1.37	0.34	73,588	4.51	3.09	0.69	0.74	0.95	0.24
WISCONSIN	87,056	6.22	3.98	1.08	1.48	1.94	0.42	33,909	4.00	2.19	0.72	1.09	0.68	0.20
E.N. CENTRAL	**1,187,489**	**7.84**	**4.58**	**1.18**	**1.38**	**1.14**	**0.34**	**482,379**	**3.70**	**2.54**	**0.58**	**0.58**	**0.48**	**0.16**
IOWA	58,096	5.83	3.51	0.94	1.38	1.60	0.65	25,625	2.41	1.40	0.44	0.57	0.32	0.10
KANSAS	50,717	5.85	3.60	1.10	1.15	1.10	0.41	17,958	3.60	2.12	0.56	0.92	1.04	0.31
MINNESOTA	202,775	4.78	2.87	0.77	1.12	0.95	0.30	76,065	3.38	1.94	0.57	0.87	0.70	0.13
MISSOURI	110,831	5.36	3.09	0.96	0.71	0.60	0.22	29,075	2.81	1.91	0.51	0.39	0.31	0.09
NEBRASKA	87,040	4.30	2.79	0.86	0.65	0.82	0.27	51,825	3.03	2.00	0.66	0.37	0.67	0.22
NORTH DAKOTA	4,648	7.21	3.77	1.16	2.26	2.58	0.99	1,294	3.17	1.47	0.62	1.08	1.31	0.54
SOUTH DAKOTA	19,866	3.58	1.98	0.60	1.01	0.53	0.17	1,496	2.10	1.62	0.39	0.78	0.24	0.04
W.N. CENTRAL	**533,084**	**5.61**	**3.14**	**0.87**	**1.00**	**0.94**	**0.33**	**207,600**	**3.19**	**1.98**	**0.57**	**0.66**	**0.61**	**0.18**
DELAWARE	33,180	4.83	3.27	0.85	0.73	0.41	0.16	15,660	3.32	2.19	0.59	0.54	0.19	0.05
D.C.	17,012	6.51	5.04	1.04	1.43	1.91	0.39	6,525	5.21	3.93	0.89	1.39	1.15	0.32
FLORIDA	517,378	4.81	3.27	0.97	0.57	0.93	0.22	282,171	3.38	2.39	0.69	0.56	0.83	0.25
GEORGIA	247,373	5.94	4.05	1.00	0.89	0.41	0.15	84,287	3.49	2.44	0.60	0.45	0.23	0.07
MARYLAND	213,080	4.99	3.18	0.91	0.70	0.56	0.16	94,637	3.03	2.05	0.54	0.43	0.24	0.07
N.C.	185,253	4.61	2.92	0.75	0.54	0.39	0.11	44,128	2.31	1.60	0.45	0.26	0.16	0.06
S.C.	113,664	6.42	4.39	1.14	0.89	0.89	0.27	26,148	3.42	2.30	0.69	0.44	0.75	0.17
VIRGINIA	382,824	4.54	3.36	0.87	0.51	0.22	0.07	124,241	4.24	3.35	0.64	0.25	0.09	0.04
W. VIRGINIA	12,357	8.12	5.13	1.35	1.62	0.22	0.15	4,681	5.19	3.14	0.95	1.20	0.13	0.11
S. ATLANTIC	**1,702,370**	**5.06**	**3.51**	**0.93**	**0.69**	**0.58**	**0.18**	**607,682**	**3.65**	**2.55**	**0.63**	**0.47**	**0.40**	**0.13**
ALABAMA	186,266	5.92	4.21	1.01	0.70	0.52	0.21	63,496	3.55	2.60	0.43	0.32	0.40	0.08
KENTUCKY	59,748	5.13	3.68	0.77	0.68	0.67	0.19	12,193	3.25	2.51	0.44	0.30	0.48	0.13
MISSISSIPPI	45,570	5.70	3.99	0.92	0.79	0.70	0.17	16,330	3.62	2.65	0.53	0.44	0.71	0.11
TENNESSEE	155,480	7.00	4.68	1.15	1.17	0.58	0.19	41,485	4.41	3.24	0.58	0.58	0.18	0.12
E.S. CENTRAL	**447,064**	**6.17**	**4.26**	**1.02**	**0.87**	**0.61**	**0.19**	**113,509**	**3.84**	**2.91**	**0.50**	**0.43**	**0.39**	**0.10**
ARKANSAS	79,573	9.80	6.73	1.32	1.55	0.65	0.21	5,999	3.61	1.86	0.15	1.02	0.32	0.25
LOUISIANA	184,416	5.82	4.09	0.98	0.75	0.72	0.13	64,956	3.94	2.74	0.61	0.59	0.75	0.13
OKLAHOMA	74,123	7.16	5.16	1.13	0.87	1.23	0.42	31,220	5.16	3.91	0.92	0.53	0.52	0.48
TEXAS	789,116	7.42	5.16	1.18	1.08	0.71	0.19	319,367	5.11	3.91	0.77	0.43	0.72	0.19
W.S. CENTRAL	**1,268,138**	**8.77**	**6.40**	**1.17**	**1.20**	**0.73**	**0.36**	**421,542**	**5.10**	**3.84**	**0.68**	**0.58**	**0.69**	**0.29**
ARIZONA	170,435	5.76	4.11	1.01	1.20	0.67	0.31	71,585	4.31	2.98	0.71	0.61	0.59	0.22
COLORADO	253,786	5.16	3.47	1.05	1.26	0.97	0.33	81,826	4.00	2.83	0.68	0.69	0.74	0.24
IDAHO	56,930	5.53	3.68	0.99	0.86	0.58	0.18	23,710	4.81	3.39	0.90	0.50	0.39	0.11
MONTANA	20,976	6.93	4.19	1.20	1.54	1.04	0.34	3,398	3.71	2.09	0.65	0.97	0.44	0.18
NEVADA	75,732	6.74	4.11	1.22	1.41	1.58	0.49	16,929	4.77	2.89	0.83	0.95	1.15	0.39
NEW MEXICO	25,161	4.35	2.71	0.68	0.96	0.45	0.12	7,927	4.14	2.13	0.60	1.41	0.67	0.11
UTAH	85,402	7.76	4.79	1.40	1.57	1.00	0.21	33,706	6.43	4.07	1.17	1.19	1.01	0.18
WYOMING	13,915	7.58	4.03	1.32	2.23	3.66	0.22	3,915	6.79	3.30	1.17	2.32	2.94	0.31
MOUNTAIN	**821,333**	**6.26**	**3.93**	**1.08**	**1.26**	**0.93**	**0.31**	**243,384**	**4.60**	**2.93**	**0.69**	**0.98**	**0.79**	**0.22**
ALASKA	29,681	5.22	3.05	0.91	1.26	0.49	0.31	10,788	4.51	2.58	0.76	1.19	0.53	0.37
CALIFORNIA	949,879	5.21	3.46	0.86	0.89	0.84	0.19	302,974	3.39	2.32	0.57	0.50	0.75	0.18
HAWAII	70,484	3.91	2.42	0.60	0.81	0.52	0.11	49,132	3.55	2.13	0.68	0.78	0.61	0.10
OREGON	100,401	5.36	3.70	0.89	0.77	2.23	0.48	58,197	4.75	3.32	0.83	0.60	2.03	0.61
WASHINGTON	270,662	5.13	3.21	0.89	1.03	0.59	0.19	116,993	3.43	2.08	0.63	0.72	0.48	0.10
PACIFIC	**1,421,107**	**5.14**	**3.37**	**0.86**	**0.91**	**0.86**	**0.21**	**537,783**	**3.67**	**2.36**	**0.62**	**0.69**	**0.79**	**0.17**
PUERTO RICO	141,927	9.24	6.12	1.83	1.29	1.20	0.49	29,914	9.97	6.60	2.14	1.23	1.88	1.04
NORTHEAST	**1,331,396**	**5.84**	**3.87**	**0.96**	**0.81**	**0.62**	**0.17**	**967,975**	**4.20**	**3.02**	**0.71**	**0.49**	**0.27**	**0.08**
NORTH CENTRAL	**1,720,493**	**6.41**	**4.08**	**1.07**	**1.26**	**1.08**	**0.34**	**690,387**	**3.52**	**2.34**	**0.58**	**0.60**	**0.48**	**0.16**
SOUTH	**3,417,488**	**5.83**	**3.94**	**0.99**	**0.90**	**0.63**	**0.24**	**1,192,953**	**4.22**	**2.98**	**0.71**	**0.53**	**0.54**	**0.23**
WEST	**2,243,040**	**5.53**	**3.57**	**0.94**	**1.02**	**0.90**	**0.25**	**996,126**	**3.96**	**2.53**	**0.67**	**0.86**	**0.79**	**0.19**
U.S. TOTAL	**9,390,417**	**5.66**	**3.90**	**1.00**	**0.96**	**0.79**	**0.25**	**3,967,483**	**4.04**	**2.75**	**0.69**	**0.61**	**0.52**	**0.18**
U.S. TOTAL (SA)	NC	6.19	4.21	1.03	0.95	NC	0.24	NC	4.11	2.85	0.71	0.56	NC	0.17

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NATIONAL DELINQUENCY SURVEY
OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS

STATE, AREA AND CENSUS REGION	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE: TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	PERCENT OF LOANS IN FORECLOSURE: INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	11,248	4.86	3.29	0.76	0.81	0.40	0.20
MAINE	5,848	4.61	3.44	0.79	0.38	0.46	0.07
MASSACHUSETTS	12,262	5.71	3.68	0.94	0.58	0.42	0.12
NEW HAMPSHIRE	4,380	5.57	4.03	1.08	0.56	0.27	0.17
RHODE ISLAND	618	6.47	4.69	0.49	1.29	0.65	0.16
VERMONT	646	5.56	3.40	1.39	0.77	0.31	0.31
NEW ENGLAND	**34,704**	**5.18**	**3.69**	**0.87**	**0.63**	**0.41**	**0.15**
NEW JERSEY	54,617	7.51	4.58	1.39	1.55	1.16	0.34
NEW YORK	50,993	6.60	6.09	1.44	1.27	0.61	0.13
PENNSYLVANIA	47,658	9.16	5.55	1.58	2.02	1.83	0.68
MID ATLANTIC	**153,488**	**8.44**	**5.39**	**1.46**	**1.60**	**1.36**	**0.38**
ILLINOIS	64,903	10.45	5.84	1.72	2.88	1.98	0.68
INDIANA	56,108	8.15	5.63	1.36	1.14	1.36	0.35
MICHIGAN	58,581	7.61	4.86	1.36	1.49	1.09	0.41
OHIO	61,729	8.82	5.80	1.47	1.75	1.62	0.39
WISCONSIN	24,096	7.41	4.61	1.38	1.61	2.25	0.47
E.N. CENTRAL	**266,217**	**8.73**	**5.43**	**1.48**	**1.82**	**1.39**	**0.48**
IOWA	15,151	8.71	4.96	1.47	2.29	2.81	1.22
KANSAS	16,121	7.17	4.54	1.31	1.32	1.02	0.46
MINNESOTA	52,539	5.81	3.47	1.04	1.30	0.90	0.35
MISSOURI	31,401	9.31	5.66	0.96	0.55	0.49	0.18
NEBRASKA	10,580	5.91	3.09	0.95	0.87	1.08	0.39
NORTH DAKOTA	909	7.54	3.77	1.72	2.00	1.43	0.54
SOUTH DAKOTA	3,562	5.03	3.75	1.12	1.2	0.56	0.25
W.N. CENTRAL	**130,353**	**8.09**	**3.75**	**1.10**	**1.31**	**1.05**	**0.42**
DELAWARE	5,636	6.09	4.31	1.10	1.49	0.59	0.21
D.C.	4,612	9.09	6.72	1.93	1.21	0.95	0.37
FLORIDA	95,390	5.89	4.16	0.99	0.74	0.77	0.18
GEORGIA	60,640	6.37	4.28	1.10	0.93	0.43	0.16
MARYLAND	59,510	5.70	3.83	0.99	0.88	0.43	0.19
N.C.	74,722	5.10	3.67	0.82	0.61	0.44	0.09
S.C.	41,585	6.12	4.21	1.03	0.88	0.69	0.24
VIRGINIA	44,735	4.30	3.02	0.85	0.63	0.24	0.08
W. VIRGINIA	4,363	12.42	7.91	2.13	2.38	0.18	0.18
S. ATLANTIC	**520,279**	**5.92**	**3.82**	**0.91**	**0.79**	**0.48**	**0.14**
ALABAMA	63,416	5.75	4.02	1.01	0.72	0.46	0.19
KENTUCKY	18,254	5.13	3.46	0.89	0.81	0.62	0.15
MISSISSIPPI	12,431	5.55	3.94	0.88	0.75	0.41	0.07
TENNESSEE	41,494	7.21	4.72	1.27	1.22	0.52	0.14
E.S. CENTRAL	**135,595**	**6.10**	**4.15**	**1.08**	**0.89**	**0.52**	**0.16**
ARKANSAS	10,310	13.97	10.51	1.77	1.69	0.14	0.20
LOUISIANA	54,108	5.74	4.01	1.01	0.72	0.61	0.11
OKLAHOMA	53,013	7.63	4.51	1.39	1.66	1.27	0.43
TEXAS	294,573	7.46	4.43	1.53	1.46	0.70	0.45
W.S. CENTRAL	**362,900**	**7.41**	**4.69**	**1.39**	**1.39**	**0.79**	**0.36**
ARIZONA	73,249	5.28	4.08	1.06	1.14	.3	0.35
COLORADO	88,710	6.37	3.78	1.27	1.32	.96	0.14
IDAHO	15,231	5.22	3.96	1.18	1.10	0.81	0.18
MONTANA	7,158	7.28	4.55	1.12	1.61	0.85	0.32
NEVADA	20,110	5.93	4.03	1.11	1.36	1.67	0.45
NEW MEXICO	9,580	4.36	2.77	0.80	0.69	0.24	0.09
UTAH	17,680	6.15	4.68	1.43	1.05	0.81	0.24
WYOMING	4,148	6.77	4.58	1.49	2.70	2.53	2.19
MOUNTAIN	**232,977**	**6.40**	**4.00**	**1.18**	**1.31**	**0.98**	**0.33**
ALASKA	4,642	6.31	3.75	1.27	1.29	0.71	0.34
CALIFORNIA	252,377	9.08	3.89	1.01	1.18	0.80	0.21
HAWAII	11,010	4.51	2.93	0.64	0.94	0.86	0.19
OREGON	10,051	6.66	4.46	1.12	1.06	2.75	0.66
WASHINGTON	51,709	7.20	4.21	1.25	1.14	1.08	0.29
PACIFIC	**329,165**	**8.19**	**3.82**	**1.04**	**1.22**	**0.90**	**0.29**
PUERTO RICO	21,835	10.93	6.83	2.16	1.94	1.29	0.45
NORTHEAST	**188,172**	**7.84**	**5.07**	**1.38**	**1.42**	**1.18**	**0.33**
NORTH CENTRAL	**626,780**	**7.96**	**4.60**	**1.35**	**1.63**	**1.42**	**0.45**
SOUTH	**1,044,776**	**6.28**	**4.18**	**1.08**	**1.02**	**0.59**	**0.23**
WEST	**562,142**	**8.31**	**3.96**	**1.10**	**1.26**	**0.90**	**0.29**
U.S. TOTAL	**2,341,648**	**6.73**	**4.35**	**1.16**	**1.22**	**0.87**	**0.29**
U.S. TOTAL (S.A.)	NC	7.11	4.63	1.21	1.16	NC	0.27

STATE, AREA AND CENSUS REGION	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE: TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	PERCENT OF LOANS IN FORECLOSURE: INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	11,100	5.64	4.08	0.87	0.69	0.56	0.16
MAINE	2,213	6.37	4.66	1.08	0.41	0.54	0.09
MASSACHUSETTS	12,329	6.25	4.14	1.27	0.84	0.41	0.11
NEW HAMPSHIRE	2,825	5.30	4.38	0.65	0.27	0.23	0.04
RHODE ISLAND	2,814	4.76	3.60	0.68	0.28	0.14	0.04
VERMONT	287	5.62	3.75	0.75	1.12	1.12	0.00
NEW ENGLAND	**31,346**	**6.01**	**4.84**	**1.01**	**0.99**	**0.44**	**0.11**
NEW JERSEY	67,207	8.55	5.34	1.51	1.70	1.09	0.49
NEW YORK	79,227	10.11	7.02	1.71	1.38	1.23	0.25
PENNSYLVANIA	78,323	9.09	5.84	1.63	1.62	1.77	0.47
MID ATLANTIC	**224,757**	**9.29**	**6.11**	**1.63**	**1.58**	**1.52**	**0.40**
ILLINOIS	102,365	11.55	6.75	1.99	2.82	2.74	0.55
INDIANA	70,148	8.26	5.73	1.31	1.18	1.62	0.49
MICHIGAN	133,405	10.15	6.47	1.78	1.89	1.92	0.39
OHIO	82,925	8.85	5.85	1.43	1.77	1.58	0.79
WISCONSIN	29,050	7.83	4.75	1.26	1.82	3.14	0.62
E.N. CENTRAL	**417,893**	**9.75**	**6.14**	**1.62**	**1.98**	**1.88**	**0.48**
IOWA	17,040	6.49	5.45	1.23	1.81	2.49	0.97
KANSAS	14,716	6.95	4.24	1.39	1.32	1.26	0.46
MINNESOTA	73,231	5.42	3.40	0.78	1.25	1.79	0.45
MISSOURI	53,355	8.63	4.58	1.18	0.87	0.61	0.30
NEBRASKA	18,555	7.21	4.71	1.33	1.17	1.01	0.39
NORTH DAKOTA	2,423	9.24	4.99	1.28	2.97	3.55	1.40
SOUTH DAKOTA	7,901	3.70	1.99	0.55	1.15	0.79	0.25
W.N. CENTRAL	**187,433**	**6.33**	**4.08**	**1.03**	**1.21**	**1.28**	**0.49**
DELAWARE	9,899	5.38	4.34	1.08	0.54	0.68	0.30
D.C.	5,875	11.40	7.69	1.98	1.75	3.56	0.49
FLORIDA	139,642	6.98	5.05	1.15	0.78	0.89	0.18
GEORGIA	92,688	7.18	4.94	1.17	1.08	0.51	0.20
MARYLAND	98,742	6.39	4.35	1.08	0.97	1.00	0.26
N.C.	82,794	5.61	4.10	0.87	0.64	0.50	0.15
S.C.	51,957	7.83	5.35	1.41	1.07	1.10	0.34
VIRGINIA	93,956	5.30	3.92	0.73	0.65	0.35	0.09
W. VIRGINIA	3,313	6.19	4.35	1.03	1.21	0.39	0.09
S. ATLANTIC	**518,189**	**6.58**	**4.67**	**1.08**	**0.85**	**0.73**	**0.19**
ALABAMA	79,354	7.37	5.14	1.32	0.91	0.85	0.29
KENTUCKY	29,298	5.90	4.29	0.85	0.76	1.27	0.23
MISSISSIPPI	16,809	7.83	5.34	1.34	1.15	0.90	0.30
TENNESSEE	72,481	9.36	5.49	1.46	1.47	0.83	0.26
E.S. CENTRAL	**197,940**	**7.55**	**5.18**	**1.28**	**1.11**	**0.90**	**0.27**
ARKANSAS	12,275	8.93	5.83	1.31	1.69	0.75	0.21
LOUISIANA	66,651	7.72	5.47	1.32	0.93	0.80	0.15
OKLAHOMA	80,790	7.87	4.71	1.54	1.62	1.11	0.38
TEXAS	304,736	7.17	4.71	1.25	1.21	0.66	0.35
W.S. CENTRAL	**483,053**	**7.61**	**4.85**	**1.31**	**1.26**	**0.79**	**0.33**
ARIZONA	145,601	7.01	4.75	1.14	1.12	0.68	0.34
COLORADO	83,248	6.92	4.17	1.19	1.56	1.21	0.42
IDAHO	17,969	5.91	3.83	0.95	1.13	0.67	0.27
MONTANA	10,419	7.72	4.62	1.43	1.67	1.37	0.40
NEVADA	38,693	7.73	4.68	1.41	1.64	1.72	0.56
NEW MEXICO	11,194	4.66	3.05	0.77	0.83	0.42	0.15
UTAH	14,006	6.87	5.45	1.61	1.81	1.09	0.23
WYOMING	5,452	7.25	4.15	1.30	1.80	5.03	0.19
MOUNTAIN	**306,600**	**7.19**	**4.50**	**1.22**	**1.27**	**1.04**	**0.36**
ALASKA	5,253	6.93	4.17	1.24	1.52	0.15	0.04
CALIFORNIA	304,529	6.85	4.56	1.12	1.17	0.98	0.22
HAWAII	13,342	4.45	3.00	0.63	0.78	0.62	0.10
OREGON	31,127	6.12	4.17	0.95	1.00	2.43	0.54
WASHINGTON	99,910	6.21	4.05	1.00	1.16	0.73	0.20
PACIFIC	**454,160**	**6.50**	**4.37**	**1.07**	**1.15**	**1.01**	**0.23**
PUERTO RICO	99,179	8.56	5.78	1.65	1.13	0.95	0.32
NORTHEAST	**256,102**	**8.06**	**5.96**	**1.55**	**1.45**	**1.47**	**0.38**
NORTH CENTRAL	**605,326**	**8.69**	**5.59**	**1.44**	**1.75**	**1.54**	**0.48**
SOUTH	**1,179,721**	**7.07**	**4.82**	**1.20**	**1.06**	**0.75**	**0.26**
WEST	**860,752**	**6.92**	**4.45**	**1.13**	**1.24**	**1.02**	**0.29**
U.S. TOTAL	**3,071,270**	**7.50**	**5.01**	**1.27**	**1.20**	**1.05**	**0.31**
U.S. TOTAL (S.A.)	NC	8.13	5.54	1.34	1.25	NC	0.30

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DATA ON 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS AS OF MARCH 31, 1985 AND FOR 1st QUARTER 1985

STATE, AREA AND CENSUS REGION	F.H.A. 536 and 237 LOANS							F.H.A. 240 LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE		NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	247	15.38	9.31	2.83	3.24	2.43	0.40	388	6.96	3.67	0.52	0.77	1.03	0.26
MAINE	297	10.81	7.67	2.44	0.70	0.35	0.35	1	0.00	0.00	0.00	0.00	0.00	0.00
MASSACHUSETTS	1 948	9.03	6.93	1.54	0.56	0.10	0.05	345	8.99	6.96	1.74	0.29	1.45	0.29
NEW HAMPSHIRE	46	2.17	0.00	2.17	0.00	0.00	0.00	69	10.15	8.70	1.45	0.00	0.00	0.00
RHODE ISLAND	93	5.38	3.23	2.15	0.00	0.00	0.00	10	0.00	0.00	0.00	0.00	0.00	0.00
VERMONT	0	0.00	0.00	0.00	0.00	0.00	0.00	23	4.35	4.35	0.00	0.00	0.00	0.00
NEW ENGLAND	**2,831**	**9.97**	**6.99**	**1.79**	**0.99**	**0.34**	**0.11**	**936**	**7.99**	**6.34**	**1.09**	**0.48**	**1.08**	**0.24**
NEW JERSEY	979	19.34	12.63	3.30	3.41	2.28	0.11	3,495	9.58	6.44	1.49	1.66	1.83	0.09
NEW YORK	1 080	8.14	5.30	1.45	1.39	0.66	0.06	575	9.92	6.26	1.37	2.09	1.04	0.00
PENNSYLVANIA	2,323	11.50	7.71	1.64	2.15	1.51	0.39	2,211	9.10	5.34	1.72	2.04	1.54	0.14
MID ATLANTIC	**4,382**	**11.78**	**7.77**	**1.87**	**2.12**	**1.38**	**0.23**	**6,281**	**9.44**	**6.03**	**1.58**	**1.83**	**1.66**	**0.10**
ILLINOIS	4 030	16.53	9.06	3.13	4.34	2.01	0.40	7 049	10.12	5.33	1.70	3.09	1.50	0.43
INDIANA	1 907	10.80	7.60	1.73	1.47	0.73	0.21	1 086	8.57	5.25	1.29	2.03	1.01	0.46
MICHIGAN	4 947	15.19	10.13	2.41	2.65	0.87	0.16	1 232	11.78	7.47	2.44	1.87	1.87	0.24
OHIO	4 621	10.13	6.67	1.51	1.95	1.23	0.26	2 955	6.42	4.22	1.01	1.19	1.43	0.24
WISCONSIN	1 955	10.94	7.38	1.43	1.53	3.63	0.61	2 166	7.29	4.43	1.15	1.71	2.63	0.51
E.N. CENTRAL	**17,460**	**13.19**	**8.84**	**2.18**	**2.60**	**1.52**	**0.30**	**14,300**	**8.99**	**5.13**	**1.51**	**3.32**	**1.05**	**0.39**
IOWA	884	19.95	13.12	1.70	1.13	2.60	0.57	1 485	9.03	4.38	1.55	3.10	2.29	0.74
KANSAS	676	14.90	7.67	2.95	4.29	1.47	0.15	1 240	7.66	4.52	1.45	1.69	1.05	0.65
MINNESOTA	1 300	10.24	6.38	1.08	1.08	1.00	0.23	5 829	9.68	3.93	1.12	1.63	1.80	0.46
MISSOURI	1 388	10.66	7.35	1.80	1.51	1.51	0.58	1 705	7.23	5.38	0.90	0.95	1.18	0.56
NEBRASKA	585	13.68	10.26	2.14	0.68	3.25	0.51	621	7.57	4.99	0.97	1.61	1.13	0.64
NORTH DAKOTA	75	50.67	42.67	6.67	1.33	0.67	0.00	110	11.81	5.45	0.91	5.45	5.45	1.82
SOUTH DAKOTA	442	6.50	4.33	0.87	1.30	0.43	0.22	991	3.54	2.32	0.61	0.61	0.40	0.00
W.N. CENTRAL	**5,372**	**12.49**	**8.07**	**1.94**	**1.98**	**1.04**	**0.27**	**12,981**	**8.96**	**4.39**	**1.12**	**1.67**	**1.98**	**0.51**
DELAWARE	879	5.45	4.32	1.02	0.11	0.68	0.34	213	7.51	5.63	1.41	0.47	0.94	0.00
D.C.	151	21.19	12.58	3.31	5.30	2.65	0.66	175	12.58	7.43	2.29	2.86	2.29	0.00
FLORIDA	5 727	12.21	8.29	2.44	1.48	0.75	0.21	10 697	7.12	5.26	1.08	0.78	2.31	0.22
GEORGIA	4 851	12.45	8.62	2.08	1.75	0.90	0.27	10 352	5.93	4.05	1.04	0.84	1.14	0.17
MARYLAND	229	22.71	17.47	3.06	2.18	5.68	1.31	5 312	9.64	4.99	1.00	3.55	1.09	0.09
N.C.	3 315	12.43	9.23	1.81	1.39	1.21	0.18	5 183	4.69	3.32	0.96	0.60	0.60	0.02
S.C.	2 926	17.40	12.20	3.01	2.19	1.30	0.48	2 477	5.49	3.75	1.05	0.69	0.93	0.07
VIRGINIA	2 361	10.64	7.15	1.65	1.23	0.51	0.21	10 282	4.76	3.57	0.61	0.58	1.94	0.24
W. VIRGINIA	107	12.14	6.54	2.80	2.80	1.87	0.53	555	6.30	3.42	1.26	1.62	0.63	0.07
S. ATLANTIC	**20,846**	**12.78**	**8.97**	**2.22**	**1.59**	**0.96**	**0.28**	**45,246**	**5.80**	**4.14**	**0.95**	**0.71**	**1.26**	**0.18**
ALABAMA	7 957	14.78	9.79	2.79	2.20	1.51	0.16						**1.20**	**0.13**
KENTUCKY	2 350	9.53	6.81	1.66	1.06	1.83	0.43	5 009	7.73	5.05	1.64	1.04	1.16	0.16
MISSISSIPPI	1 702	13.70	9.11	2.12	2.47	0.71	0.18	327	9.79	6.73	2.14	0.92	2.75	0.61
TENNESSEE	3 787	13.65	8.90	2.43	2.32	1.08	0.26	662	10.42	7.25	1.51	1.66	1.51	0.15
E.S. CENTRAL	**15,796**	**13.61**	**9.08**	**2.46**	**2.09**	**1.37**	**0.23**	3 461	6.69	5.75	1.50	1.44	1.21	0.14
								9,459	**8.36**	**5.53**	**1.69**	**1.23**	**1.28**	**0.18**
ARKANSAS	474	9.92	6.12	2.11	1.69	2.53	0.42							
LOUISIANA	7 184	10.41	7.36	1.74	1.31	0.65	0.19	48	8.33	6.25	2.08	0.00	4.17	0.00
OKLAHOMA	3 351	11.13	6.92	2.00	2.21	0.87	0.32	2 507	10.69	6.86	1.60	2.23	2.63	0.08
TEXAS	9 719	12.24	8.08	2.27	1.91	0.55	0.65	5 411	9.24	5.21	2.03	2.00	3.10	0.24
W.S. CENTRAL	**20,728**	**11.39**	**7.59**	**2.04**	**1.76**	**0.89**	**0.43**	22 778	7.39	4.60	1.31	1.42	1.48	0.46
								30,744	**7.93**	**4.99**	**1.46**	**1.58**	**2.04**	**0.36**
ARIZONA	3 745	13.65	9.64	2.43	1.58	0.83	0.53							
COLORADO	1 731	11.49	7.68	2.02	1.79	0.69	0.29	12 906	9.16	6.03	1.67	1.46	0.92	0.28
IDAHO	1 077	10.67	6.78	2.14	1.95	1.02	0.74	10 631	8.29	4.86	1.51	1.92	1.34	0.35
MONTANA	337	12.47	7.42	1.19	3.86	2.08	0.00	1 044	14.85	9.39	2.97	2.49	2.97	0.77
NEVADA	912	13.37	8.66	2.63	2.08	1.43	1.10	671	9.60	6.20	1.18	2.22	1.33	0.59
NEW MEXICO	539	10.13	6.09	1.67	2.38	0.48	0.00	3 665	10.39	6.49	1.66	2.24	2.40	0.82
UTAH	2 924	10.95	6.16	2.26	2.53	0.75	0.15	561	6.07	3.39	1.43	1.25	0.36	0.00
WYOMING	122	9.84	6.56	3.28	0.00	0.00	0.00	6 925	11.51	6.90	2.21	2.40	1.57	0.43
MOUNTAIN	**11,687**	**12.09**	**7.79**	**2.23**	**2.03**	**0.88**	**0.39**	134	14.18	7.46	2.24	4.48	4.48	3.75
								38,743	**9.81**	**5.66**	**1.75**	**1.90**	**1.39**	**0.40**
ALASKA	6	16.67	0.00	16.67	0.00	0.00	0.00							
CALIFORNIA	7 092	13.61	8.73	2.31	2.57	0.90	0.32	1 268	7.09	4.57	1.18	1.34	0.00	0.00
HAWAII	992	8.47	6.25	1.31	0.91	0.91	0.50	45 321	8.20	5.18	1.31	1.71	1.38	0.35
OREGON	580	10.59	6.03	1.91	2.65	1.62	1.03	985	4.57	2.64	1.02	0.91	1.42	0.20
WASHINGTON	3 701	12.54	7.84	2.16	2.54	0.89	0.27	4 586	6.91	4.34	1.09	1.48	0.65	0.12
PACIFIC	**12,471**	**12.71**	**8.11**	**2.17**	**2.43**	**0.94**	**0.36**	18 937	7.61	4.69	1.29	1.63	0.97	0.30
								71,103	**7.88**	**4.95**	**1.28**	**1.65**	**1.28**	**0.32**
ALASKA, HAWAII	1 621	12.21	8.43	2.39	1.40	0.55	0.63							
								0	0.00	0.00	0.00	0.00	0.00	0.00
NORTHEAST	**7,493**	**11.09**	**7.50**	**1.94**	**1.65**	**1.09**	**0.19**							
NORTH CENTRAL	**22,832**	**13.02**	**8.58**	**2.09**	**2.36**	**1.55**	**0.32**	7,117	9.26	6.07	1.52	1.67	1.39	0.11
SOUTH	**57,070**	**12.49**	**8.48**	**2.31**	**1.70**	**0.97**	**0.32**	26,459	8.97	4.72	1.33	2.00	1.62	0.45
WEST	**24,158**	**12.40**	**7.96**	**2.22**	**2.22**	**0.98**	**0.38**	86,449	6.85	4.57	1.28	1.00	1.55	0.25
								107,848	6.47	5.20	1.44	1.74	1.26	0.26
U.S. TOTAL	**123,906**	**12.30**	**8.26**	**2.14**	**1.89**	**1.02**	**0.33**							
ALABAMA		14.8	9.21	2.32	1.95	NC	0.15	**232,356**	**7.83**	**4.99**	**1.34**	**1.51**	**1.42**	**0.31**
								NC	n.a.	n.a.	n.a.	n.a.	NC	n.a.

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MORTGAGE BANKERS ASSOCIATION OF AMERICA

NATIONAL DELINQUENCY SURVEY OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS
MARCH 31, 1985

CENSUS REGION	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE															PERCENT OF LOANS FORECLOSURES STARTED DURING QUARTER		
	TOTAL PAST DUE			30 DAYS			60 DAYS			90 DAYS OR MORE			90 DAYS OR MORE (S.A.)					
		CHANGE FROM			CHANGE FROM			CHANGE FROM			CHANGE FROM			CHANGE FROM			CHANGE FROM	
	CURR QTR	YR AGO	QTR AGO	CURR QTR	YR AGO	QTR AGO	CURR QTR	YR AGO	QTR AGO	CURR QTR	YR AGO	QTR AGO	CURR QTR	QTR AGO		CURR QTR	YR AGO	QTR AGO
CONVENTION LOANS																		
Northeast	4.22	(0.36)	(0.67)	3.02	0.32	(0.47)	0.11	0.04	(0.14)	0.49	0.00	(0.06)	0.48	(0.07)		0.08	0.01	0.01
North Central	3.52	0.12	(0.50)	2.34	0.18	(0.43)	0.58	(0.01)	(0.03)	0.60	(0.05)	(0.04)	0.60	(0.03)		0.18	0.02	0.02
South	4.22	1.05	0.27	2.86	0.72	0.16	0.71	0.14	0.06	0.65	0.19	0.05	0.58	0.02		0.23	0.08	0.04
West	3.66	(0.08)	(0.38)	2.53	0.06	(0.25)	0.61	(0.08)	(0.07)	0.66	(0.09)	(0.04)	0.60	(0.08)		0.19	0.01	0.03
U.S. Total	**4.04**	**0.43**	**(0.19)**	**2.75**	**0.30**	**(0.14)**	**0.63**	**0.03**	**(0.04)**	**0.61**	**0.02**	**(0.01)**	—	—		**0.19**	**0.04**	**0.03**
U.S. Total s.a.*	4.11	—	0.07	2.86	—	0.10	0.67	—	(0.01)	0.58	—	(0.02)	0.58	(0.02)		0.17	—	0.02
VA LOANS																		
Northeast	7.56	0.55	(2.12)	5.07	0.28	(1.12)	1.20	0.09	(0.24)	1.42	0.08	(0.16)	1.30	(0.21)		0.33	(0.02)	0.15
North Central	7.66	1.17	(1.24)	4.68	0.62	(1.02)	1.35	0.23	(0.12)	1.63	0.12	(0.10)	1.63	0.04		0.45	0.08	0.13
South	5.28	0.91	(0.27)	4.18	0.54	(0.43)	1.08	0.20	0.05	1.02	0.17	0.12	0.98	0.17		0.23	0.05	0.05
West	6.31	0.86	(0.25)	3.95	0.45	(0.48)	1.10	0.15	0.08	1.26	0.23	0.13	1.23	0.18		0.78	0.04	0.05
U.S. Total	**6.73**	**0.84**	**(0.98)**	**4.35**	**0.50**	**(0.61)**	**1.18**	**0.18**	**(0.01)**	**1.22**	**0.17**	**0.06**	—	—		**0.39**	**0.04**	**0.07**
U.S. Total s.a.*	7.12	—	0.53	4.73	—	0.28	1.21	—	0.14	1.19	—	0.11	1.19	0.11		0.27	—	0.06
ALL FHA LOANS																		
Northeast	8.96	0.81	(2.47)	5.96	0.37	(1.97)	1.55	0.18	(0.31)	1.45	0.06	(0.29)	1.32	(0.31)		0.36	0.05	0.13
North Central	8.69	1.18	(1.78)	5.50	0.82	(1.30)	1.44	0.21	(0.10)	1.75	0.15	(0.18)	1.78	0.03		0.46	0.09	0.13
South	7.07	0.81	(0.44)	4.82	0.56	(0.49)	1.20	0.12	0.04	1.05	0.13	0.01	1.01	0.06		0.26	0.07	0.03
West	6.92	0.97	(0.53)	4.45	0.62	(0.30)	1.13	0.15	0.00	1.24	0.20	0.15	1.19	0.18		0.29	0.09	0.04
U.S. Total	**7.96**	**0.98**	**(0.62)**	**5.01**	**0.60**	**(0.59)**	**1.27**	**0.16**	**(0.03)**	**1.28**	**0.16**	**(0.06)**	—	—		**0.31**	**0.07**	**0.06**
U.S. Total s.a.*	8.13	—	0.74	5.54	—	0.54	1.34	—	0.13	1.25	—	0.07	1.25	0.07		0.30	—	0.05
FHA LOANS (excluding 235 and 237)																		
Northeast	9.51	0.85	(2.34)	6.25	0.62	(1.84)	1.66	0.25	(0.25)	1.60	(0.02)	(0.25)	1.45	(0.27)		0.31	0.09	0.06
North Central	8.98	1.37	(1.71)	5.55	0.92	(0.91)	1.48	0.14	(0.09)	1.95	0.21	(0.21)	1.99	0.07		0.48	0.11	0.17
South	6.80	0.97	(0.29)	4.66	0.70	(0.38)	1.14	0.13	0.05	1.00	0.14	0.04	0.96	0.09		0.22	0.06	0.02
West	6.75	1.09	(0.06)	4.43	0.72	(0.21)	1.15	0.17	0.01	1.21	0.20	0.14	1.16	0.19		0.26	0.07	0.00
U.S. Total	**7.46**	**1.14**	**(0.47)**	**4.99**	**0.79**	**(0.47)**	**1.25**	**0.19**	**0.00**	**1.27**	**0.19**	**0.00**	—	—		**0.30**	**0.08**	**0.04**
U.S. Total s.a.*	7.98	—	0.79	5.43	—	0.58	1.31	—	0.14	1.24	—	0.07	1.24	0.07		0.27	—	0.04
FHA LOANS (Section 235 and 237)																		
Northeast	11.10	1.19	(4.13)	7.50	0.97	(2.75)	1.84	0.39	(0.78)	1.66	(0.17)	(0.57)	1.54	(0.63)		0.18	—	—
North Central	11.21	1.72	(3.25)	6.58	2.87	(2.52)	2.09	0.53	(0.39)	2.36	0.62	(0.34)	2.61	0.26		0.42	—	—
South	8.61	1.27	(1.11)	5.64	1.81	(1.49)	2.22	0.32	0.05	1.78	0.18	(0.05)	1.75	0.23		0.15	—	—
West	8.28	—	(1.19)	5.41	2.11	(1.56)	2.20	0.30	(0.04)	2.24	0.34	0.18	2.19	0.82		0.15	—	—
U.S. Total	**12.30**	**1.64**	**(1.81)**	**8.26**	**1.69**	**(1.63)**	**2.14**	**0.32**	**(0.05)**	**1.98**	**0.29**	**(0.09)**	—	—		**0.33**	**0.13**	**(0.07)**
U.S. Total s.a.*	—	—	—	—	—	—	—	—	—	—	—	—	—	—		—	—	—
FHA 235 LOANS																		
Northeast	6.31	—	—	4.58	—	—	1.18	—	—	0.55	—	—	—	—		0.10	—	—
North Central	6.74	—	—	4.91	—	—	1.15	—	—	0.68	—	—	—	—		0.13	—	—
South	5.11	—	—	3.71	—	—	0.96	—	—	0.44	—	—	—	—		0.07	—	—
West	5.47	—	—	3.81	—	—	1.06	—	—	0.60	—	—	—	—		0.13	—	—
U.S. Total	**7.83**	**1.25**	**0.07**	**4.98**	**0.88**	**(0.06)**	**1.34**	**0.23**	**0.07**	**1.51**	**0.22**	**0.08**	—	—		**0.31**	**0.16**	**0.11**
U.S. Total s.a.*	—	—	—	—	—	—	—	—	—	—	—	—	—	—		—	—	—

*Seasonally adjusted series for 90 days or more and U.S. Totals, are not available.

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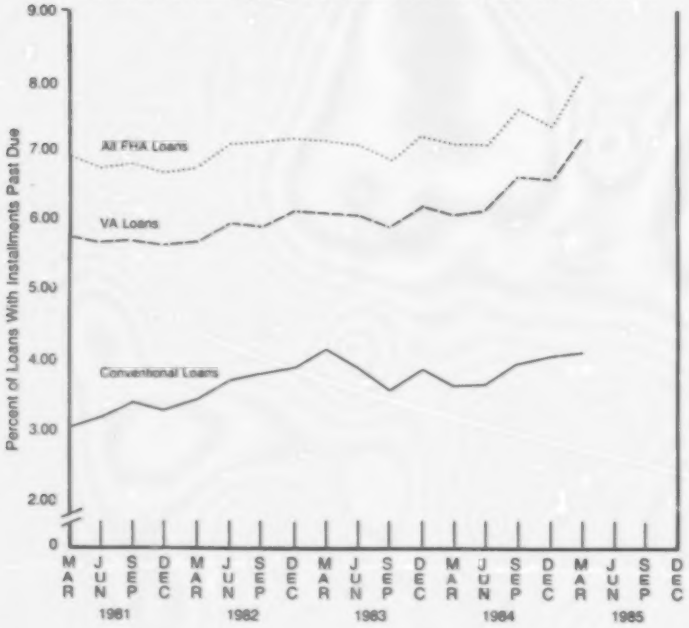
MORTGAGE BANKERS ASSOCIATION OF AMERICA

NATIONAL DELINQUENCY SURVEY OF 1-4 UNIT RESIDENTIAL MORTGAGE LOANS
MARCH 31, 1985

% SEASONALLY ADJUSTED DELINQUENCY RATES BY MAJOR LOAN TYPES



SURVEY INFORMATION AND NOTES

1. This survey includes over 8.2 [illegible] non mortgage loans on 1- to 4-unit residential properties, covering an estimated 53-1/2 [illegible] of debt. These loans are serviced by more than 4300 reporters, including mortgage bankers, commercial banks, savings banks, savings and loan associations, and life insurance companies.

2. A loan is considered 30 days delinquent if the March 1 installment has not been paid as of March 31. A loan is 60 days delinquent if the February 1 installment is unpaid as of March 31, etc.

3. Foreclosures started during quarter - includes loans placed in the process of foreclosure during that quarter, based on new foreclosures and loans assigned to FHA, VA, other investors or investors. Foreclosure inventory, end of quarter - includes all loans in process of foreclosure on March 31. Both foreclosure categories are exclusive of loans with installments past due.

4. Not all reporters provide data on FHA loans by section, thus, the sum of the individual totals of FHA loan delinquencies will not necessarily equal the number of all FHA loans reported.

5. National totals include Puerto Rico loans and loans of lenders not providing state-by-state data.

6. S.A. — seasonally adjusted data.

7. N.C. — not calculated.

8. Series does not exhibit stable seasonal patterns.

CENSUS REGIONS

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National Delinquency Survey

Prepared by the MBA Economics Department
June 3, 1980

Mortgage Bankers Association of America
1125 FIFTEENTH STREET, N.W. • WASHINGTON, D.C. 20005

RECEIVED BY CONGRESS
JUN 2 1980
Congressional Research Service

DATA FOR MARCH 31, 1980
AND FOR 1st QUARTER 1980

Reflecting the first quarter's sharp economic downturn, and especially the continued deterioration in real (inflation-adjusted) income and rapid rise in unemployment, all major loan delinquency rates reached record or near-record levels by the end of March 1980. This year's first quarter saw the eighth, ninth, and tenth consecutive monthly declines in real income, together with some disheartening employment statistics. March unemployment was up 300,000 persons over December 1979's level and at 6.2 percent, stood substantially above the 5.9 percent rate recorded at the end of the preceding quarter. Amid this aura of deepening recession, the overall U.S. delinquency rate on one- to four-unit residential mortgage loans rose 31 basis points from the previous quarter to a record 4.96 percent in the quarter of 1980—10 basis points above the previous record set in September 1979.

TEXT NUMBERS ARE SEASONALLY ADJUSTED UNLESS OTHERWISE NOTED.

All installment past due categories increased significantly. The rate for 30-day delinquencies contributed most to the overall rise, with a 22 basis-point increase to 3.58 percent. The 60-day past due rate tied the record high at 0.83 percent, and the 90-day rate, at 0.55 percent, missed the record by only one basis point.

All major loan types experienced record or near-record short- and long-term delinquency rates. The VA loan rate, at an all-time high, increased 25 basis points over the previous record for the total past due category. Conventional loans total past due jumped 26 basis points, to a record 3.08 percent, due mostly to the 20 basis-point increase in 30-day delinquencies. And, FHA loans total past due also set a record, at 6.48 percent.

The FHA 235 and 237 loan programs provided the only exception to the pattern by declining 50 basis points from the 12.25 percent level of a year ago. This was due mainly to the 38 basis-point drop in the 30-day rate.

The rate of foreclosures started for all loan types declined one basis point to 0.13 percent, tying the record low set in September 1979. The FHA foreclosure rate dropped six basis points to an all-time low of 0.15 percent, and the VA rate fell three basis points to 0.16 percent. The conventional rate remained in the 0.03 to 0.07 percent range it has maintained since September 1977.

Given the general worsening in economic activity, real income, and employment since March, these record and near-record rates are likely to continue at, if not exceed, these levels (especially in the longer-term delinquency and foreclosure categories) during the coming quarter.

DELINQUENCY RATES OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS
Seasonally Adjusted

END OF QTR	ALL LOANS					CONVENTIONAL LOANS					VA LOANS					ALL FHA LOANS				
	PERCENT OF LOANS																			
	Total Past Due	Installments Past Due			Fcls. started	Total Past Due	Installments Past Due			Fcls. started	Total Past Due	Installments Past Due			Fcls. started	Total Past Due	Installments Past Due			Fcls. started
		30 Days	60 Days	90 Days or more			30 Days	60 Days	90 Days or more			30 Days	60 Days	90 Days or more			30 Days	60 Days	90 Days or more	
1978																				
1st	4.60	3.29	0.78	0.53	0.15	2.75	1.89	0.47	0.29	0.07	4.54	3.20	0.81	0.53	0.18	6.01	4.35	0.97	0.69	0.21
2nd	4.58	3.31	0.76	0.52	0.16	2.65	1.85	0.42	0.28	0.08	4.45	3.10	0.82	0.53	0.18	5.81	4.26	0.97	0.68	0.22
3rd	4.58	3.31	0.76	0.51	0.16	2.68	1.88	0.42	0.28	0.08	4.54	3.20	0.81	0.53	0.20	6.04	4.38	0.99	0.68	0.21
4th	4.54	3.29	0.75	0.50	0.16	2.68	2.00	0.40	0.26	0.07	4.57	3.26	0.79	0.52	0.20	6.09	4.44	0.98	0.68	0.22
1979																				
1st	4.47	3.27	0.73	0.47	0.15	2.61	2.01	0.42	0.24	0.07	4.56	3.26	0.79	0.51	0.19	5.98	4.40	0.95	0.63	0.22
2nd	4.53	3.32	0.74	0.47	0.14	2.54	1.96	0.36	0.24	0.06	4.58	3.32	0.84	0.52	0.17	6.02	4.43	0.99	0.63	0.19
3rd	4.66	3.60	0.78	0.48	0.13	3.04	2.37	0.43	0.24	0.06	5.02	3.58	0.87	0.58	0.15	6.43	4.76	1.02	0.65	0.16
4th	4.65	3.36	0.78	0.51	0.14	2.62	2.12	0.44	0.26	0.06	5.01	3.49	0.88	0.64	0.19	6.36	4.65	1.02	0.69	0.21
1980																				
1st	4.96	3.58	0.83	0.55	0.13	3.08	2.32	0.48	0.28	0.07	5.27	3.64	0.96	0.65	0.16	6.48	4.74	1.04	0.70	0.15

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MORTGAGE BANKERS ASSOCIATION OF AMERICA

STATE, AREA AND CENSUS REGION	ALL LOANS							CONVENTIONAL LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE		NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	88,594	2.89	1.97	0.55	0.37	0.13	0.05	77,681	2.57	1.73	0.51	0.33	0.14	0.05
MAINE	19,333	3.77	2.84	0.77	0.36	0.12	0.06	14,560	3.38	2.36	0.70	0.28	0.12	0.05
MASSACHUSETTS	75,046	3.15	2.12	0.62	0.41	0.13	0.10	39,562	1.63	1.33	0.31	0.19	0.11	0.10
NEW HAMPSHIRE	17,579	1.23	1.00	0.31	0.23	0.07	0.21	13,716	1.00	1.22	0.21	0.17	0.05	0.19
RHODE ISLAND	5,672	2.70	1.32	0.99	0.39	0.11	0.19	4,988	2.54	1.29	0.88	0.38	0.11	0.21
VERMONT	236	2.51	1.67	0.84	0.00	1.26	0.00	3	0.00	0.00	0.00	0.00	0.00	0.00
NEW ENGLAND	216,455	2.99	2.04	0.59	0.37	0.13	0.09	160,439	2.37	1.83	0.46	0.28	0.12	0.08
NEW JERSEY	214,884	4.65	3.31	0.89	0.65	0.57	0.15	121,944	3.11	2.19	0.60	0.32	0.23	0.09
NEW YORK	398,732	5.22	4.46	1.06	0.68	0.30	0.15	268,754	5.15	3.82	0.85	0.48	0.14	0.11
PENNSYLVANIA	187,623	5.40	3.84	0.94	0.71	0.51	0.27	72,869	2.81	1.87	0.40	0.34	0.15	0.09
MID ATLANTIC	801,219	5.00	4.02	0.99	0.69	0.42	0.19	463,567	4.19	3.07	0.71	0.41	0.17	0.10
ILLINOIS	186,263	7.63	5.06	1.29	1.29	1.23	0.32	60,988	4.20	3.32	0.53	0.35	0.24	0.08
INDIANA	101,519	5.00	3.55	0.87	0.58	0.61	0.25	39,809	1.99	1.46	0.26	0.13	0.10	0.06
MICHIGAN	368,240	4.27	3.11	0.72	0.44	0.39	0.17	198,529	2.12	1.64	0.32	0.16	0.07	0.09
OHIO	187,606	5.02	3.39	0.93	0.70	1.09	0.19	35,412	1.82	1.39	0.38	0.15	0.10	0.04
WISCONSIN	43,362	4.48	2.80	0.79	0.89	0.33	0.11	17,612	1.69	1.19	0.40	0.39	0.07	0.04
E.N. CENTRAL	886,992	5.85	3.83	0.91	0.71	0.73	0.22	352,970	2.42	1.86	0.36	0.20	0.11	0.08
IOWA	35,562	4.94	3.30	0.83	0.71	0.18	0.09	8,326	3.03	1.83	0.61	0.49	0.14	0.05
KANSAS	30,325	4.96	3.22	0.83	0.71	0.26	0.14	6,904	2.38	1.61	0.55	0.22	0.08	0.02
MINNESOTA	140,170	3.90	2.94	0.58	0.37	0.09	0.06	56,218	3.16	2.62	0.39	0.15	0.04	0.04
MISSOURI	92,623	5.09	3.38	1.00	0.70	0.15	0.16	11,747	2.46	1.69	0.44	0.33	0.03	0.08
NEBRASKA	19,112	5.43	3.35	0.87	1.11	0.37	0.19	2,458	2.04	1.22	0.43	0.37	0.08	0.00
NORTH DAKOTA	770	3.90	2.99	0.52	0.39	0.26	0.00	71	1.41	1.41	0.00	0.00	0.00	0.00
SOUTH DAKOTA	2,113	3.79	2.70	0.47	0.52	0.24	0.14	109	2.78	2.78	0.00	0.00	0.00	0.00
W.N. CENTRAL	330,675	4.83	3.18	0.79	0.86	0.15	0.11	83,834	2.97	2.33	0.43	0.22	0.06	0.04
DELAWARE	22,283	3.88	2.74	0.74	0.40	0.31	0.21	7,992	1.04	0.69	0.25	0.11	0.10	0.05
D.C.	9,910	7.84	5.11	1.12	1.31	0.50	0.29	3,051	6.30	4.29	1.09	0.92	0.49	0.40
FLORIDA	330,084	4.48	3.14	0.77	0.57	0.23	0.11	61,297	2.18	1.60	0.35	0.23	0.11	0.06
GEORGIA	158,819	5.47	3.56	1.14	0.77	0.33	0.16	37,941	2.67	1.84	0.53	0.30	0.15	0.07
MARYLAND	127,507	3.14	2.20	0.56	0.38	0.21	0.13	52,576	1.66	1.15	0.26	0.23	0.10	0.07
N.C.	80,206	4.40	2.98	0.80	0.61	0.20	0.15	21,245	2.36	1.75	0.38	0.23	0.11	0.13
S.C.	69,870	6.23	4.27	1.05	0.91	0.49	0.29	8,148	2.79	2.13	0.46	0.20	0.18	0.07
VIRGINIA	225,853	3.27	2.41	0.54	0.32	0.11	0.06	80,999	2.29	1.71	0.34	0.24	0.09	0.03
W. VIRGINIA	12,295	2.99	1.94	0.63	0.51	0.24	0.02	3,432	1.48	0.99	0.32	0.17	0.06	0.09
S. ATLANTIC	1,046,899	4.51	3.08	0.77	0.66	0.24	0.13	274,979	2.21	1.60	0.37	0.24	0.10	0.06
ALABAMA	85,105	5.26	3.60	1.04	0.62	0.13	0.16	12,340	2.66	2.05	0.44	0.16	0.05	0.05
KENTUCKY	94,903	5.12	3.19	0.94	0.99	0.41	0.13	8,739	3.12	1.66	0.56	0.96	0.33	0.22
MISSISSIPPI	74,886	4.25	3.26	0.65	0.73	0.14	0.20	24,903	2.57	1.66	0.41	0.20	0.03	0.14
TENNESSEE	96,449	6.78	3.25	0.89	0.62	0.21	0.12	13,378	2.60	1.84	0.49	0.17	0.10	0.07
E.S. CENTRAL	311,943	4.66	3.36	0.89	0.61	0.20	0.15	57,388	2.67	1.94	0.49	0.27	0.09	0.11
ARKANSAS	34,016	4.33	2.99	0.78	0.73	0.30	0.16	5,703	1.77	1.26	0.28	0.23	0.14	0.05
LOUISIANA	141,296	5.84	2.90	0.80	0.32	0.16	0.16	32,396	2.08	1.70	0.21	0.17	0.05	0.12
OKLAHOMA	119,776	5.49	3.16	0.75	1.58	0.79	0.15	15,927	2.46	1.88	0.34	0.24	0.12	0.09
TEXAS	1,000,000	5.00	3.00	0.75	1.25	0.75	0.15	97,161	2.50	1.90	0.30	0.30	0.15	0.08
W.S. CENTRAL	795,088	2.62	2.81	0.63	0.39	0.11	0.11	151,257	1.89	1.47	0.26	0.16	0.06	0.08
ARIZONA	239,671	3.87	2.66	0.69	0.32	0.15	0.06	46,679	2.27	1.76	0.36	0.15	0.09	0.05
COLORADO	224,684	3.25	2.34	0.53	0.36	0.22	0.09	87,986	2.01	1.64	0.24	0.13	0.08	0.06
IDAHO	42,434	3.54	2.29	0.71	0.54	0.26	0.17	19,135	3.12	1.94	0.64	0.54	0.16	0.04
MONTANA	12,683	4.28	2.65	0.73	0.90	0.41	0.32	2,575	1.58	1.13	0.23	0.23	0.19	0.23
NEVADA	58,903	5.66	3.91	1.19	0.56	0.27	0.10	9,709	5.64	3.31	1.53	0.80	0.07	0.05
NEW MEXICO	51,540	3.33	2.70	0.41	0.22	0.09	0.03	7,834	2.21	1.70	0.31	0.14	0.09	0.01
UTAH	48,800	3.56	3.69	1.04	0.82	0.22	0.14	17,532	4.03	2.53	0.88	0.64	0.13	0.14
WYOMING	6,290	4.02	2.64	0.68	0.70	0.16	0.21	999	3.15	2.14	0.67	0.34	0.00	0.00
MOUNTAIN	665,204	3.91	2.70	0.68	0.44	0.19	0.09	100,330	2.06	1.66	0.44	0.26	0.09	0.06
ALASKA	9,929	4.30	2.82	0.89	0.62	0.09	0.13	4,640	2.82	1.66	0.56	0.60	0.30	0.17
CALIFORNIA	981,117	4.06	3.33	0.85	0.50	0.21	0.07	351,786	3.03	2.32	0.50	0.21	0.11	0.04
HAWAII	60,742	2.66	1.99	0.53	0.47	0.12	0.05	41,807	2.53	1.66	0.48	0.41	0.08	0.02
OREGON	61,384	3.05	2.25	0.48	0.22	0.12	0.09	27,311	2.46	2.03	0.33	0.12	0.10	0.08
WASHINGTON	207,614	3.55	2.53	0.62	0.40	0.19	0.06	70,998	2.27	1.66	0.26	0.20	0.07	0.04
PACIFIC	1,320,786	4.34	3.09	0.76	0.47	0.20	0.07	498,441	2.85	2.15	0.47	0.23	0.10	0.04
PUERTO RICO	46,124	10.07	7.32	2.05	1.70	2.07	0.75	4,809	15.10	9.30	2.72	3.18	2.00	0.88
NORTHEAST	1,917,576	5.11	3.80	0.90	0.61	0.36	0.16	980,906	3.74	2.71	0.65	0.38	0.15	0.10
NORTH CENTRAL	1,386,677	5.07	3.51	0.90	0.66	0.69	0.19	436,363	2.53	1.86	0.39	0.26	0.10	0.07
SOUTH	3,125,267	4.39	2.99	0.74	0.66	0.19	0.12	483,189	2.16	1.69	0.34	0.23	0.09	0.07
WEST	2,008,980	4.30	3.09	0.76	0.45	0.20	0.08	668,779	2.77	2.07	0.48	0.24	0.10	0.05
U.S. TOTAL	7,137,081	4.66	3.33	0.80	0.54	0.32	0.14	2,438,834	2.83	2.17	0.49	0.28	0.13	0.08
U.S. TOTAL (S.A.)	NC	4.66	3.58	0.83	0.55	NC	0.13	NC	3.08	2.32	0.48	0.20	NC	0.07

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NATIONAL DELINQUENCY SURVEY
OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS

STATE, AREA AND CENSUS REGION	VA LOANS							ALL FHA LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE		NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	10,525	3.02	2.05	0.56	0.41	0.11	0.09	10,170	5.17	3.72	0.86	0.59	0.10	0.04
MAINE	2,709	4.87	3.25	1.01	0.61	0.19	0.11	1,998	5.26	3.76	0.96	0.55	0.09	0.06
MASSACHUSETTS	13,966	4.56	2.94	1.06	0.56	0.11	0.09	21,980	4.84	3.69	0.82	0.33	0.19	0.11
NEW HAMPSHIRE	2,771	4.79	3.64	0.61	0.54	0.18	0.40	1,992	3.66	2.65	0.62	0.19	0.09	0.09
RHODE ISLAND	303	1.98	0.99	0.00	0.33	0.00		700	4.14	1.71	1.86	0.57	0.00	0.00
VERMONT	100	3.55	2.37	1.18	0.00	1.78	0.00	67	0.00	0.00	0.00	0.00	0.00	0.00
NEW ENGLAND	30,469	4.06	2.70	0.84	0.51	0.13	0.11	36,806	4.78	3.53	0.83	0.43	0.14	0.09
NEW JERSEY	43,936	6.30	4.22	1.18	0.96	0.95	0.23	46,981	7.84	5.38	1.37	1.13	1.00	0.21
NEW YORK	62,029	6.96	5.00	1.20	0.75	0.51	0.19	77,940	9.22	6.28	1.85	1.31	0.94	0.24
PENNSYLVANIA	46,260	6.81	4.37	1.39	1.05	0.61	0.32	62,464	7.65	5.57	1.22	0.86	0.69	0.39
MID ATLANTIC	152,258	6.73	4.58	1.33	0.90	0.73	0.26	186,384	8.33	5.77	1.48	1.13	0.78	0.29
ILLINOIS	53,937	7.34	3.93	1.57	1.84	1.32	0.51	89,378	10.34	7.08	1.85	1.40	1.00	0.37
INDIANA	53,318	5.37	3.47	1.11	0.79	0.70	0.32	68,382	8.52	6.01	1.64	0.87	0.69	0.39
MICHIGAN	45,621	4.52	3.18	0.68	0.45	0.24	0.16	120,791	7.65	5.44	1.32	0.89	0.92	0.32
OHIO	79,567	5.29	3.43	1.08	0.79	1.40	0.27	92,569	9.13	6.32	1.65	0.85	1.10	0.19
WISCONSIN	10,464	5.58	3.17	1.16	1.25	0.34	0.11	15,975	6.57	4.44	0.98	1.15	0.83	0.19
E.N. CENTRAL	243,337	5.82	3.48	1.19	0.99	0.97	0.31	373,038	7.87	5.39	1.37	1.03	1.17	0.30
IOWA	12,903	5.34	3.54	0.92	0.88	0.17	0.09	14,331	5.40	3.89	0.87	0.68	0.21	0.12
KANSAS	13,749	4.94	2.98	1.07	0.89	0.39	0.23	11,972	5.60	4.17	0.92	0.70	0.17	0.09
MINNESOTA	26,578	4.33	3.11	0.74	0.48	0.09	0.07	44,374	6.45	5.21	0.75	0.54	0.13	0.07
MISSOURI	32,863	4.11	2.84	0.91	0.56	0.15	0.20	48,103	6.39	4.29	1.20	0.90	0.10	0.16
NEBRASKA	5,666	4.82	2.89	0.83	1.08	0.23	0.12	10,980	6.53	4.07	1.18	1.30	0.50	0.21
NORTH DAKOTA	433	4.84	3.46	0.92	0.46	0.23	0.00	966	3.01	2.62	0.00	0.39	0.39	0.00
SOUTH DAKOTA	702	3.99	2.85	0.43	0.71	0.28	0.14	1,393	3.76	2.01	0.54	0.81	0.23	0.15
W.N. CENTRAL	105,914	4.49	2.99	0.86	0.64	0.18	0.11	131,137	5.99	3.83	0.98	0.77	0.30	0.13
DELAWARE	5,904	4.37	3.07	0.86	0.44	0.68	0.42	8,407	6.38	4.43	1.12	0.83	0.34	0.29
D C	3,502	8.46	5.37	1.23	1.86	0.94	0.94	3,377	7.71	5.57	1.04	1.10	0.39	0.12
FLORIDA	101,162	4.33	2.84	0.84	0.65	0.23	0.13	107,005	5.41	3.69	0.89	0.84	0.39	0.12
GEORGIA	63,494	5.90	3.94	1.39	0.83	0.33	0.17	57,384	6.85	4.95	1.27	1.03	0.45	0.32
MARYLAND	45,761	3.90	2.71	0.74	0.45	0.29	0.19	29,156	4.61	3.27	0.78	0.55	0.27	0.14
N C	43,592	4.54	2.90	0.83	0.71	0.24	0.18	28,388	5.87	4.18	0.92	0.77	0.20	0.13
S C	29,260	5.35	3.55	1.00	0.80	0.40	0.29	36,415	7.53	5.22	1.19	1.12	0.62	0.24
VIRGINIA	94,131	3.39	2.43	0.62	0.34	0.12	0.08	50,523	4.61	3.49	0.71	0.41	0.15	0.11
W VIRGINIA	4,579	4.69	2.62	1.11	0.96	0.48	0.00	4,286	2.80	1.68	0.35	0.38	0.16	0.09
S. ATLANTIC	396,384	4.44	2.96	0.89	0.61	0.36	0.18	291,054	5.89	4.03	0.94	0.71	0.31	0.18
ALABAMA	40,102	5.06	3.28	1.09	0.68	0.14	0.10	43,840	6.18	4.32	1.17	0.70	0.16	0.10
KENTUCKY	17,492	4.37	2.80	0.77	0.80	0.31	0.07	39,272	6.82	3.78	1.12	1.14	0.40	0.14
MISSISSIPPI	21,649	4.35	3.34	0.65	0.36	0.16	0.16	26,334	5.69	4.42	0.68	0.40	0.21	0.26
TENNESSEE	28,069	4.63	2.98	0.94	0.71	0.19	0.14	45,004	5.47	3.83	0.97	0.70	0.27	0.12
E.S. CENTRAL	107,312	4.68	3.13	0.91	0.64	0.19	0.10	147,273	5.96	4.07	1.04	0.73	0.27	0.13
ARKANSAS	13,680	5.06	3.14	0.98	0.90	0.45	0.26	16,627	4.98	3.21	0.75	0.70	0.21	0.12
LOUISIANA	50,259	3.31	2.47	0.54	0.30	0.10	0.09	36,479	5.29	3.98	0.89	0.43	0.16	0.10
OKLAHOMA	38,493	4.94	3.07	0.85	0.62	0.37	0.25	64,439	4.98	3.73	0.76	0.49	0.17	0.11
TEXAS	181,583	4.04	2.76	0.77	0.51	0.08	0.16	134,681	4.13	3.28	0.62	0.21	0.04	0.05
W.S. CENTRAL	284,035	4.03	2.77	0.75	0.51	0.15	0.18	251,576	4.83	3.44	0.76	0.39	0.09	0.09
ARIZONA	65,944	3.89	2.87	0.69	0.32	0.15	0.07	127,248	4.45	3.27	0.80	0.38	0.17	0.09
COLORADO	65,570	3.66	2.61	0.72	0.53	0.32	0.12	51,139	4.39	3.16	0.71	0.57	0.20	0.08
IDAHO	11,564	4.18	2.88	0.82	0.69	0.43	0.32	11,735	3.64	2.51	0.72	0.41	0.25	0.24
MONTANA	4,831	5.11	3.02	0.91	1.18	0.72	0.52	5,287	4.62	3.03	0.91	0.68	0.23	0.17
NEVADA	18,208	5.10	3.34	0.99	0.77	0.27	0.09	20,987	6.57	4.46	1.18	0.94	0.32	0.12
NEW MEXICO	15,552	2.75	2.19	0.39	0.17	0.06	0.03	28,104	3.99	3.23	0.48	0.27	0.11	0.03
UTAH	11,343	6.23	3.94	1.30	0.99	0.34	0.22	17,555	6.61	4.68	1.04	0.89	0.22	0.10
WYOMING	3,256	4.15	2.58	0.83	0.74	0.18	0.21	7,154	4.17	2.92	0.48	0.78	0.10	0.28
MOUNTAIN	210,258	4.06	2.80	0.75	0.51	0.26	0.12	270,519	4.74	3.49	0.80	0.53	0.21	0.09
ALASKA	3,117	5.84	3.87	1.32	0.65	1.13	0.11	1,572	5.15	3.75	0.78	0.64	0.00	0.06
CALIFORNIA	269,989	5.07	3.40	1.01	0.66	0.26	0.09	359,483	5.98	4.27	1.05	0.66	0.26	0.10
HAWAII	11,229	3.84	2.43	0.53	0.88	0.24	0.11	12,719	3.80	2.84	0.76	0.48	0.13	0.08
OREGON	8,948	3.99	2.84	0.73	0.42	0.23	0.15	25,094	3.33	2.52	0.56	0.25	0.10	0.08
WASHINGTON	39,207	4.77	3.00	1.04	0.73	0.31	0.14	67,549	4.60	2.99	0.82	0.39	0.20	0.09
PACIFIC	332,571	4.97	3.31	1.00	0.66	0.27	0.10	466,344	5.42	3.99	0.94	0.60	0.22	0.13
PUERTO RICO	10,888	12.13	7.84	2.64	1.65	3.27	1.10	30,427	10.04	6.82	1.73	1.49	1.04	0.69
NORTHEAST	182,961	6.29	4.27	1.19	0.84	0.83	0.26	221,017	7.79	5.36	1.35	1.08	0.87	0.28
NORTH CENTRAL	349,151	5.39	3.36	1.06	0.98	0.72	0.25	504,380	7.12	4.98	1.19	0.96	0.91	0.29
SOUTH	781,721	4.33	2.91	0.84	0.58	0.21	0.15	665,403	5.28	3.81	0.88	0.59	0.22	0.13
WEST	549,219	4.81	3.11	0.90	0.80	0.37	0.11	715,992	5.17	3.73	0.89	0.56	0.33	0.09
U.S. TOTAL	2,068,706	4.82	3.23	0.94	0.66	0.36	0.16	3,026,221	5.98	4.01	0.99	0.70	0.44	0.17
U.S. TOTAL (S.A.)	NC	5.27	3.64	0.98	1.65	NC	0.16	NC	6.49	4.14	1.01	0.70	NC	0.15

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DATA ON 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS AS OF MARCH 31, 1980 AND FOR 1st QUARTER, 1980

STATE, AREA AND CENSUS REGION	F.H.A. 235 and 237 LOANS							F.H.A. 245 LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE		NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	160	11.38	9.75	1.88	0.63	0.63	1.25	83	1.09	1.09	0.00	0.00	0.00	0.00
MAINE	253	11.06	4.74	3.16	3.16	0.00	0.00	0	0.00	0.00	0.00	0.00	0.00	0.00
MASSACHUSETTS	1,081	12.37	6.66	3.48	1.97	0.25	0.25	55	1.82	1.82	0.00	0.00	0.00	0.00
NEW HAMPSHIRE	39	5.12	0.00	2.56	2.56	0.00	0.00	0	0.00	0.00	0.00	0.00	0.00	0.00
RHODE ISLAND	11	18.18	0.00	18.18	0.00	0.00	0.00	0	0.00	0.00	0.00	0.00	0.00	0.00
VERMONT	0	0.00	0.00	0.00	0.00	0.00	0.00	0	0.00	0.00	0.00	0.00	0.00	0.00
NEW ENGLAND	2,544	13.07	6.57	3.49	3.00	0.39	0.39	160	1.23	1.23	0.00	0.00	0.00	0.00
NEW JERSEY	790	11.01	8.23	1.39	1.39	0.51	0.13	147	4.08	3.40	0.68	0.00	0.00	0.00
NEW YORK	3,479	8.36	4.25	3.28	0.75	1.49	1.38	18	0.00	0.00	0.00	0.00	0.00	0.00
PENNSYLVANIA	1,119	7.95	6.17	0.80	0.98	1.07	0.00	422	4.97	3.56	0.95	0.47	0.24	0.24
MID ATLANTIC	5,388	9.01	5.33	3.49	0.56	1.30	0.65	586	4.61	3.40	0.85	0.34	0.34	0.17
ILLINOIS	3,836	15.63	10.45	2.77	2.41	3.05	1.17	2,706	7.66	4.62	1.27	1.18	0.67	0.11
INDIANA	1,924	10.47	7.64	2.03	0.80	1.83	0.57	282	3.07	1.71	0.68	0.68	0.34	0.00
MICHIGAN	4,099	11.32	8.10	1.95	1.37	1.44	0.41	67	0.00	0.00	0.00	0.00	0.00	0.00
OHIO	4,521	8.40	6.11	1.54	0.75	1.37	0.20	466	3.63	2.43	0.20	0.20	0.61	0.61
WISCONSIN	1,788	12.98	9.68	2.27	1.00	1.35	0.17	819	2.62	2.08	0.37	0.37	0.24	0.24
E.N. CENTRAL	15,868	11.09	8.13	2.05	1.41	1.96	0.62	5,370	5.83	3.94	0.99	0.93	0.56	0.19
IOWA	914	12.25	7.99	3.06	1.20	0.44	0.44	1,400	2.96	2.00	0.43	0.43	0.07	0.07
KANSAS	369	19.97	12.47	3.25	3.25	0.00	0.27	979	2.24	1.53	0.20	0.51	0.00	0.10
MINNESOTA	1,408	8.02	5.36	1.57	1.70	0.14	0.07	782	2.56	1.79	0.38	0.38	0.00	0.13
MISSOURI	1,837	9.62	6.82	1.42	1.39	0.33	0.27	981	2.19	1.48	0.62	0.10	0.10	0.00
NEBRASKA	1,480	6.15	3.65	1.29	1.02	0.34	0.20	939	2.56	1.70	0.43	0.43	0.00	0.00
NORTH DAKOTA	0	0.00	0.00	0.00	0.00	0.00	0.00	7	0.00	0.00	0.00	0.00	0.00	0.00
SOUTH DAKOTA	29	0.00	0.00	0.00	0.00	0.00	0.00	146	2.73	2.05	0.00	0.68	0.49	0.00
W.N. CENTRAL	6,971	9.80	6.39	1.70	1.03	0.58	0.30	5,304	2.55	1.72	0.43	0.40	0.04	0.06
DELAWARE	84	10.94	6.25	1.56	3.13	1.56	0.00	7	0.00	0.00	0.00	0.00	0.00	0.00
D.C.	191	11.51	7.85	2.09	1.57	1.05	0.52	12	0.00	0.00	0.00	0.00	0.00	0.00
FLORIDA	12,394	9.65	6.77	1.98	0.89	0.37	0.11	4,114	3.96	3.04	0.51	0.41	0.10	0.10
GEORGIA	3,815	10.84	7.52	1.82	1.49	0.44	0.53	579	6.73	4.49	0.69	1.55	0.17	0.00
MARYLAND	475	5.27	2.11	2.11	1.05	0.21	0.21	961	3.21	2.17	0.39	0.11	0.22	0.33
N.C.	1,720	10.00	6.55	1.57	0.70	0.29	0.29	280	4.00	3.20	0.40	0.40	0.40	0.00
S.C.	3,269	14.41	10.41	2.44	1.56	1.03	0.76	354	3.95	3.11	0.56	0.28	0.28	0.00
VIRGINIA	1,139	12.77	8.97	2.39	1.32	0.35	0.35	1,381	3.31	2.68	0.43	0.22	0.00	0.07
W. VIRGINIA	273	8.24	4.40	0.37	1.47	0.37	0.00	0	0.00	0.00	0.00	0.00	0.00	0.00
S. ATLANTIC	23,990	10.98	7.53	1.90	1.15	0.49	0.30	7,699	3.89	3.05	0.49	0.42	0.13	0.11
ALABAMA	4,264	9.04	6.66	1.69	1.09	0.19	0.28	1,969	3.66	2.29	0.91	0.46	0.29	0.09
KENTUCKY	3,918	11.09	8.62	2.22	2.07	0.69	0.37	219	5.03	3.20	0.46	1.37	0.00	0.46
MISSISSIPPI	1,902	9.73	7.45	1.24	1.04	0.72	0.57	199	2.93	1.52	0.00	0.51	0.51	0.00
TENNESSEE	2,979	10.52	7.52	1.77	0.83	0.66	0.03	701	5.00	3.28	0.86	0.86	0.00	0.14
E.S. CENTRAL	13,063	10.26	7.66	1.68	1.03	0.51	0.30	3,211	4.07	2.62	0.77	0.68	0.03	0.14
ARKANSAS	915	9.40	6.88	1.14	1.39	1.14	0.46	77	10.69	12.99	2.60	1.30	1.30	1.30
LOUISIANA	6,717	8.01	6.66	1.28	0.86	0.21	0.60	93	1.20	1.20	0.00	0.00	0.00	0.00
OKLAHOMA	2,287	8.38	7.01	1.01	0.74	0.17	0.17	1,419	4.51	3.45	0.78	0.42	0.21	0.00
TEXAS	7,346	9.29	6.97	1.34	1.00	0.85	0.69	1,394	2.53	1.84	0.61	0.08	0.00	0.00
W.S. CENTRAL	17,836	9.12	6.83	1.34	0.99	0.65	0.55	2,983	3.68	2.81	0.60	0.60	0.14	0.03
ARIZONA	3,966	10.11	7.38	1.76	1.01	0.48	0.20	4,303	4.37	3.35	0.65	0.37	0.19	0.09
COLORADO	1,243	8.61	6.03	1.37	1.21	0.88	0.16	5,089	5.00	3.21	1.00	0.80	0.20	0.12
IDAHO	473	6.28	2.96	1.06	0.21	0.21	0.21	229	3.53	2.65	0.44	0.44	0.44	0.00
MONTANA	336	5.36	2.39	1.79	1.19	0.00	0.00	255	3.92	1.96	0.39	1.57	0.39	0.39
NEVADA	1,080	11.85	8.45	1.96	1.48	0.28	0.00	498	9.25	6.43	1.41	1.41	0.00	0.00
NEW MEXICO	1,067	7.40	5.34	1.32	0.74	0.11	0.21	482	4.78	3.73	0.43	1.03	0.00	0.00
UTAH	1,083	9.61	6.74	1.48	1.39	0.18	0.09	1,088	6.23	3.95	1.28	1.10	0.46	0.00
WYOMING	142	6.34	3.52	1.41	1.41	0.70	0.00	6	0.00	0.00	0.00	0.00	0.00	0.00
MOUNTAIN	11,919	9.79	6.90	1.60	1.48	0.37	0.10	11,969	5.09	3.46	0.87	0.87	0.31	0.09
ALASKA	39	20.00	20.00	0.00	0.00	0.00	0.00	0	0.00	0.00	0.00	0.00	0.00	0.00
CALIFORNIA	12,251	12.17	8.66	2.10	1.39	0.44	0.31	10,753	6.91	4.96	1.21	0.74	0.10	0.07
HAWAII	1,197	13.27	8.68	2.92	1.68	0.27	0.07	58	8.62	5.17	3.45	0.00	0.00	0.00
OREGON	964	8.30	7.23	1.76	0.31	0.00	0.00	467	2.27	1.05	0.21	0.21	0.21	0.00
WASHINGTON	2,497	12.34	8.44	2.41	1.40	1.01	0.20	1,908	4.43	3.27	0.61	0.55	0.00	0.00
PACIFIC	17,238	13.15	8.93	2.28	1.38	0.48	0.26	13,186	6.48	4.61	1.10	0.80	0.09	0.06
PUERTO RICO	1,089	10.60	12.60	4.10	1.80	0.83	0.90	0	0.0	0.00	0.00	0.00	0.00	0.00
NORTHEAST	7,850	9.98	5.96	3.77	1.26	0.91	0.68	720	3.94	2.99	0.69	0.27	0.27	0.14
NORTH CENTRAL	21,360	11.02	7.91	1.97	1.44	1.61	0.44	10,843	4.28	2.83	0.75	0.87	0.32	0.12
SOUTH	53,440	10.09	7.19	1.76	1.13	0.60	0.38	13,702	3.96	2.94	0.58	0.43	0.11	0.09
WEST	35,348	11.03	7.79	2.00	1.26	0.64	0.32	25,043	5.73	4.06	0.96	0.69	0.19	0.09
U.S. TOTAL	118,087	10.47	7.33	1.94	1.21	0.94	0.31	51,029	4.79	3.41	0.79	0.59	0.17	0.09
U.S. TOTAL, S.F.	NC	11.15	8.45	2.09	1.21	NC	0.29	51,029	NC	n.a.	n.a.	n.a.	NC	n.a.

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MORTGAGE BANKERS ASSOCIATION OF AMERICA

NATIONAL DELINQUENCY SURVEY OF 1-4 UNIT RESIDENTIAL MORTGAGE LOANS
MARCH 31, 1980

CENSUS REGION	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE															PERCENT OF LOANS FORECLOSURES STARTED DURING QUARTER		
	TOTAL PAST DUE			30 DAYS			60 DAYS			90 DAYS OR MORE			90 DAYS OR MORE (S.A.)*					
		CHANGE FROM			CHANGE FROM			CHANGE FROM			CHANGE FROM			CHANGE FROM			CHANGE FROM	
	CURR. QTR.	YR. AGO	QTR. AGO	CURR. QTR.	YR. AGO	QTR. AGO	CURR. QTR.	YR. AGO	QTR. AGO	CURR. QTR.	YR. AGO	QTR. AGO	CURR. QTR.	QTR. AGO	CURR. QTR.	YR. AGO	QTR. AGO
CONVENTIONAL LOANS																	
Northeast	3.76	0.14	(0.14)	2.71	0.10	(0.10)	0.85	0.04	(0.03)	0.39	0.00	(0.01)	0.37	0.00	0.10	(0.02)	0.03
North Central	2.53	0.38	(0.41)	1.85	0.34	(0.39)	0.36	0.03	(0.01)	0.20	0.01	(0.01)	0.19	(0.02)	0.07	0.02	0.01
South	2.10	0.11	(0.28)	1.60	0.11	(0.20)	0.34	0.01	(0.05)	0.22	(0.01)	(0.03)	0.21	(0.03)	0.07	0.03	0.01
West	2.77	0.59	0.23	2.07	0.41	0.11	0.46	0.12	0.06	0.24	0.06	0.04	0.23	0.03	0.05	0.01	0.01
U.S. TOTAL	2.90	0.27	(0.10)	2.17	0.20	(0.12)	0.48	0.06	0.01	0.26	0.03	0.01	—	—	0.08	(0.01)	0.02
U.S. Total (s.a.)	*3.09*	—	*0.24*	*2.30*	—	*0.19*	*0.49*	—	*0.04*	*0.29*	—	*0.02*	*0.28*	*0.02*	*0.07*	—	*0.01*
V.A. LOANS																	
Northeast	6.29	0.52	(0.93)	4.27	0.69	(0.62)	1.18	0.11	(0.17)	0.84	0.02	(0.09)	0.81	(0.03)	0.24	(0.13)	0.01
North Central	5.28	0.82	(1.50)	3.34	0.33	(1.36)	1.09	0.22	(0.10)	0.69	0.27	0.02	0.68	0.06	0.25	0.09	0.02
South	4.33	0.90	(0.57)	2.91	0.28	(0.64)	0.84	0.16	0.01	0.58	0.15	0.08	0.57	0.08	0.16	0.00	0.02
West	4.61	0.90	(0.08)	3.11	0.50	(0.79)	0.90	0.24	0.10	0.60	0.15	0.11	0.56	0.09	0.11	0.03	0.00
U.S. TOTAL	4.92	0.66	(0.70)	3.25	0.54	(0.71)	0.94	0.19	(0.02)	0.69	0.14	(0.02)	—	—	0.19	(0.03)	(0.02)
U.S. Total (s.a.)	*5.27*	—	*0.28*	*3.64*	—	*0.15*	*0.98*	—	*0.10*	*0.83*	—	*0.01*	*0.69*	*0.01*	*0.16*	—	*(0.04)*
ALL F.H.A. LOANS																	
Northeast	7.79	(0.09)	(2.03)	5.38	0.09	(1.50)	1.33	(0.07)	(0.42)	1.05	(0.07)	(0.13)	1.04	(0.08)	0.35	(0.33)	0.01
North Central	7.12	0.61	(2.11)	4.98	0.50	(1.73)	1.19	0.06	(0.26)	0.85	0.05	(0.12)	0.86	(0.03)	0.25	0.03	(0.01)
South	5.26	0.54	(0.82)	3.81	0.30	(0.99)	0.85	0.10	(0.05)	0.58	0.13	0.03	0.56	0.08	0.13	0.00	0.00
West	5.17	0.69	(0.44)	3.72	0.42	(0.53)	0.89	0.16	0.04	0.58	0.09	0.05	0.52	0.02	0.09	0.04	0.01
U.S. TOTAL	6.09	0.40	(1.39)	4.21	0.30	(1.13)	0.99	0.05	(0.16)	0.70	0.07	(0.04)	—	—	0.17	(0.06)	(0.04)
U.S. Total (s.a.)	*6.48*	—	*0.09*	*4.74*	—	*0.09*	*1.04*	—	*0.01*	*0.70*	—	*0.02*	*0.70*	*0.09*	*0.15*	—	*(0.06)*
F.H.A. LOANS (excluding 235 & 237)																	
Northeast	7.71	0.16	(1.72)	5.37	0.24	(0.99)	1.30	0.02	(0.23)	1.04	(0.10)	(0.09)	1.01	(0.07)	0.24	(0.09)	0.05
North Central	6.94	0.67	(2.02)	4.89	0.52	(1.60)	1.15	0.08	(0.26)	0.83	0.09	(0.10)	0.84	(0.06)	0.24	0.05	0.05
South	4.96	0.56	(0.79)	3.56	0.32	(0.93)	0.81	0.13	(0.02)	0.56	0.14	0.04	0.55	0.07	0.12	0.01	0.02
West	4.95	0.75	(0.37)	3.57	0.47	(0.47)	0.83	0.18	0.05	0.53	0.09	0.05	0.50	0.04	0.08	0.04	0.02
U.S. TOTAL	5.85	0.56	(0.91)	4.06	0.42	(0.84)	0.95	0.13	(0.07)	0.67	0.11	0.00	—	—	0.16	0.03	0.05
U.S. Total (s.a.)	*6.10*	—	*0.33*	*4.53*	—	*0.24*	*0.99*	—	*0.06*	*0.68*	—	*0.03*	*0.66*	*0.03*	*0.14*	—	*0.03*
F.H.A. LOANS (Section 235 and 237)																	
Northeast	9.69	(4.08)	(2.02)	5.98	(2.60)	(2.08)	2.77	(0.42)	0.22	1.24	(0.84)	(0.21)	1.24	(0.11)	0.68	(0.42)	0.21
North Central	11.02	0.57	(4.58)	7.61	0.14	(3.99)	1.97	0.15	(0.46)	1.44	0.29	(0.13)	1.46	(0.02)	0.44	0.43	0.12
South	10.06	0.14	(3.20)	7.19	0.04	(2.94)	1.75	(0.02)	(0.36)	1.12	(0.12)	(0.09)	1.13	0.00	0.26	0.05	(0.04)
West	11.03	0.08	(1.62)	7.78	(0.01)	(1.59)	2.09	0.15	(0.04)	1.25	(0.06)	0.01	1.17	(0.05)	0.22	0.11	0.10
U.S. TOTAL	10.47	(0.40)	(2.56)	7.33	(0.33)	(2.63)	1.94	(0.06)	(0.30)	1.21	(0.05)	(0.05)	—	—	0.31	0.09	0.01
U.S. Total (s.a.)	*11.75*	—	*0.19*	*8.45*	—	*0.09*	*2.09*	—	*0.12*	*1.21*	—	*(0.02)*	*1.21*	*(0.02)*	*0.28*	—	*(0.01)*
F.H.A. 245 LOANS																	
Northeast	3.95	(0.60)	(0.58)	2.69	(1.58)	(0.33)	0.69	0.69	(0.37)	0.27	0.27	0.12	—	—	0.14	0.14	0.14
North Central	4.20	1.65	(1.14)	2.63	1.00	(0.58)	0.70	0.35	(0.33)	0.67	0.60	(0.20)	—	—	0.12	0.04	0.04
South	3.48	(0.73)	(0.60)	2.54	(0.27)	(0.62)	0.58	(0.56)	0.05	0.43	0.09	0.07	—	—	0.09	0.01	0.09
West	5.73	1.73	2.40	4.06	0.98	0.10	0.99	0.27	0.20	0.68	0.48	0.10	—	—	0.09	0.01	(0.02)
U.S. TOTAL	4.79	0.62	(0.17)	3.41	0.51	(0.32)	0.70	0.04	0.00	0.39	0.37	0.07	—	—	0.09	0.03	0.03
U.S. Total (s.a.)	*n.a.*	—	—	*n.a.*	—	—	*n.a.*	—	—	*n.a.*	—	—	—	—	*n.a.*	—	—

*Seasonally adjusted series for 90 days or more and U.S. Totals, are not available.

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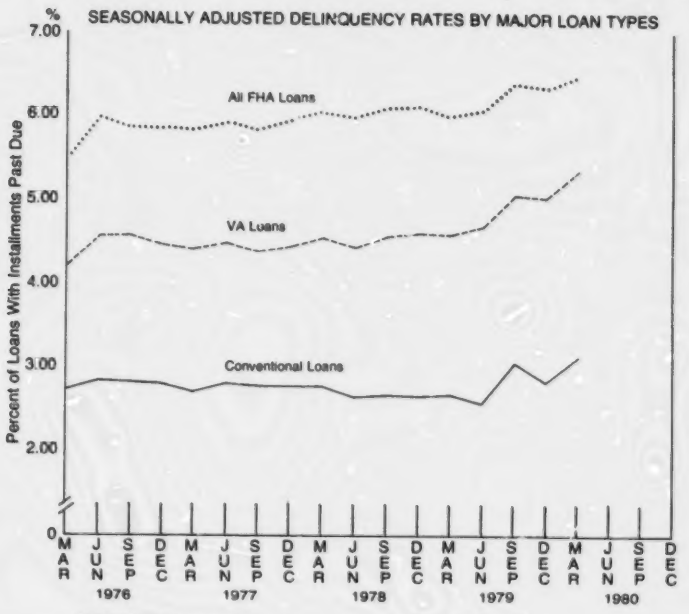
MORTGAGE BANKERS ASSOCIATION OF AMERICA

NATIONAL DELINQUENCY SURVEY OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS
MARCH 31, 1980



SURVEY INFORMATION AND NOTES

1. This survey includes over 7.1 million mortgage loans on 1- to 4-unit residential properties totaling an estimated $150.2 billion of debt. These loans are serviced by more than 800 reporters, including mortgage bankers, commercial banks, savings banks, savings and loan associations, and life insurance companies.

2. A loan is considered 30 days delinquent if the March 1 installment has not been paid as of March 31. A loan is 90 days delinquent if the February 1 installment is unpaid as of March 31, etc.

3. Foreclosure started during quarter" includes loans placed in the process of foreclosure during first quarter, deeds in lieu of foreclosure, and loans assigned to FHA, VA, other insurers or investors. Foreclosure inventory, end of quarter" includes all loans in process of foreclosure on March 31. Both foreclosure categories are excluded from "total installments past due."

4. Not all reporters provide data on FHA loans by section, thus, the sum of the two types of FHA loan breakdowns will not necessarily equal the number of all FHA loans reported.

5. National totals include Puerto Rico loans and loans of firms not providing state-by-state data.

6. s.a.—seasonally adjusted data.

7. nc—not calculated.

8. Series does not exhibit stable seasonal patterns.

CENSUS REGIONS

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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING-FEDERAL HOUSING COMMISSIONER

FEB 12 1985

MEMORANDUM FOR: Shirley McVay Wiseman, General Deputy
Assistant Secretary for Housing, HD

FROM: James B. Mitchell, Director
Financial Policy Division, HPFP

SUBJECT: Mortgage Loan Delinquencies and Foreclosures
Third Quarter - 1984

I. Summary

The number of homeowners who are either behind in their mortgage payments or in danger of losing their homes rose substantially in the third quarter of 1984, compared with that of the previous quarter. The upsurge in delinquency rates was apparent for all types of loans secured by 1-4 family residential properties.

Paralleling the increased incident of delinquent loans in the third quarter, the proportion of loans for which foreclosure action was initiated and number of loans in foreclosure also increased. However, these upward movements in rates had not yet been reflected in the foreclosure completed statistics.

Among the various loan types, delinquency data sources, and categories for payments past due, third quarter figures either almost matched or surpassed the record high rates set in the first and last quarters of 1983. Some mortgage market analysts believe that shifts in the rate of mortgage loan delinquencies and foreclosures are tied to changes in personal income and savings. The large third quarter's increase in serious mortgage loan delinquencies and foreclosures was accompanied by very little growth in both personal income and savings as well as with slower economic growth. Moreover, market analysts point to the fact that home value appreciation has slowed dramatically and unemployment rates have not improved in some parts of the country.

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Between July and September 1984, the largest increase in serious mortgage loan delinquencies (with the exception of conventional adjustable rate mortgage loans) was loans insured by FHA with payments of 60 and 90 or more days past due. Delinquency rates for these loans jumped as much as .52 percentage points for 2-or-more missed payments and .27 percentage points for 3 payments in arrears. On balance, these very large increases during the third quarter of 1984 overshadowed the substantial declines in delinquency experience for FHA loans obtained in the first half of 1984. Moreover, 60- and 90-day delinquency rates for FHA loans at the end of the third quarter were significantly higher than the level of rates reported for these loans at the end of September 1983.

Past-due-payment rates for VA-guaranteed loans were next highest with increases of up to .41 percentage points in September over June 1984, while smaller increases of .06 to .36 percentage points were reported for conventional residential mortgage loans over the same period. Compared to September 1983, delinquency rates for conventional loans were higher in all payments past due categories, but changes in rates for VA loans by data source were mixed. Compared to a year earlier, VA delinquency figures reported by FNMA (FNMA's delinquency series is now heavily weighted with seasoned or older loans) were lower than ones reported by MBA and the Veterans Administration.

In keeping with the delinquency experience in most of 1984, third quarter delinquency measures continued to identify conventional adjustable rate mortgage loans (ARM's) as the most troublesome among conventional loans. The increasingly high level of delinquency rates for ARM's has caused some concern among leading mortgage lenders. According to FNMA statistics, delinquency rates for adjustable rate mortgage loans were twice that of fixed rate mortgage loans in the third quarter of 1984.

II. Detailed Findings

A. Mortgage Loan Delinquencies

1. FHA -Insured Loans Delinquency rates for FHA-insured loans rose substantially in the third quarter of 1984, nearly surpassing the extremely high levels reached in the first quarter of 1983. However, the level of delinquencies for these loans are still below that of the all-time record set in the fourth quarter of 1983. The average delinquency rate (seasonally unadjusted) of the three FHA delinquency series (Source: MBA, FHA, FNMA as

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shown in table I), reporting payments of 60 or more days past due for all FHA home loans, jumped from 3.11 to 3.52 percent in the three month period between the end of June and September 1984. This is a .41 percentage points increase. The average of these rates at the end of September 1983, however, was .15 percentage points higher and stood at 3.67 percent.

For FHA home loans with more serious delinquencies (90-days-or-more), the increase in the average of the four delinquency series (MBA, FHA, NAMSB, FNMA) during the third quarter of 1984 was more moderate. The average of these rates increased from 1.81 percent in June 1984 to 1.89 percent in September 1984. The 90-day delinquency series as reported quarterly by HUD (the most inclusive FHA loan delinquency series) was 2.12 percent at the end of September, up .09 percentage points compared with that of the second quarter of 1984. This rate, however, was down .06 percentage points from that of the end of September 1983, when HUD's 90-day series reported an average rate of 2.18 percent.

Delinquency rates for FHA-Graduated Payment loans (Section 245 GPM) reported by the Mortgage Bankers Association, at the end of September 1984, were 3.69 percent (or 37 in every 1,000 loans) for 60-day or more missed payments, and 2.40 percent (24 loans per 1,000) for loans past due 90 days or more. The FHA GPM delinquency rate (60 days or more) reported by FNMA, increased to 3.97 percent (40 loans per 1,000) at the end of September 1984, from 3.79 percent (38 loans per 1,000) at the end of June 1984. For loans 90 days or more in arrears, the delinquency rate dropped to 2.80 percent, down only .03 percentage points from that of the second quarter of 1984. (See table 6.)

For the higher risk loans insured under Sections 235 and 237, the average delinquency rate reported by the Mortgage Bankers Association for total loans past due (including loans in the process of foreclosure) rose to 13.78 percent at the end of September from 11.95 percent at the end of June 1984. At the end of September 1983, FNMA reported that the combined delinquency measure for Section 235 and 237 loans was 14.29 percent.

2. VA-guaranteed Loans The two series (MBA and FNMA) which show September data on 60-day VA loan delinquencies, indicated that a substantial increase in rates for these loans of .41 and .35 percentage points, respectively, had occurred between July and September 1984. The average delinquency rate for VA-guaranteed loans 90-or-more days

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past due as reported by the Veterans Administration, rose to 2.37 percent at the end of September 1984 from 2.23 percent at the end of June 1984. Compared to September 1983, the average VA rate increased by .23 percentage points from that of a year earlier. (The Veterans Administration delinquency series represents the ratio of "loans with defaults pending" to the total number of loans outstanding.)

3. Conventional Loans Generally, conventional loan delinquency rates for 1-4 family homes increased in the third quarter of 1984. For all lender associations that report conventional delinquency series, the average composite rate in September 1984 was 1.71 percent (17 loans per 1,000) for loans with two or more missed monthly payments, or .21 percentage points above the average rate of 1.50 percent in June of 1984. For loans with three or more missed payments, the average composite delinquency rate was 1.00 percent, up by .19 percentage points as compared with the second quarter of 1984.

The Federal Home Loan Bank Board (FHLBB) delinquency ratio, which measures the dollar amount of mortgage loans and land contracts delinquent 60 days or more as a percent of total dollar amount of mortgages and land contracts held at the end of the month, rose to 2.15 percent in September from 2.03 percent at the end of June 1984.

4. Adjustable Rate Mortgages In September 1984, FNMA's tabulation of delinquencies which compares the experience of conventional adjustable rate mortgages with traditional loans found that conventional ARMs had a delinquency rate of 4.61 percent (up .93 percentage points from 3.68 percent at the end of June) for 60-day or more missed payments. Conventional fixed-rate loans, in contrast, had a delinquency rate of 2.34 percent (up 24 basis points from 2.10 percent in June 1984). (See last column Table 6.) The delinquency rate differential between ARM's and FRM's in September 1984 was 2.27 percentage points, compared to 1.58 percentage points in June 1984. For missed payments of 90-days-or-more, conventional ARMs had a 3.48 percent delinquency rate (up from 2.70 percent in June 1984), while this measure for fixed-rate loans stood at 1.58 percent (up from 1.52 percent in June 1984). The tally for September resulted in a 1.90 percentage point difference (between ARMs and FRMs), compared to a 1.18 percentage point difference three months earlier.

During the third quarter of 1984, rates for 90-day delinquencies on ARM loans rose by .78 percentage points. Moreover, the Federal Home Loan Mortgage Corporation (FHLMC)

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monthly mortgage loan delinquency series indicated that the average 60- and 90-day delinquency rate on conventional ARM's increased from .83 percent to 1.77 percent and from .48 to 1.06 percent, respectively, between January and November 1984.

The National Council of Savings Institutions quarterly delinquency survey showed a contrasting view for the third quarter of 1984. Delinquency rates (based on three or more payments overdue on a monthly program) reported by savings banks on the last business day of September were higher than for ARM loans. The highest delinquency rate pertained to fixed-rate loans serviced directly on out of state properties. (Loans serviced directly are loans for which collection of mortgage payments, supervision, contractual requirements and related functions are undertaken by the savings banks themselves. About 95 percent of loans originated by savings banks are serviced directly.)

	Third Quarter - 1984	
	Adjustable Rate	Fixed- Rate
Loans Serviced Directly	Mortgage Loans	Mortgage
In State Properties	.0046	.0063
Out of State Properties	.0019	.0178
Loans Serviced by Others		
All Properties	.0085	.0056

Some mortgage market analysts, however, caution about over-interpreting the level of delinquencies for ARM's because of the relative short experience lenders have had in originating and servicing these loans. Many analysts feel it is to early to tell if conventional ARM's represent any sizable portion of total delinquent conventional loans and are uncertain as to what impact these loans will have on future claims and losses. (Nearly 100 percent of conventional ARM loan originations with high loan-to-value ratios are currently backed by private mortgage insurance.) Moreover, in the absence of a detailed analysis of the impact of year-to-year upward rate adjustments and negative amortization, a fair assessment of ARM delinquency experience, thus far, has not been possible. Moreover, compared to fixed rate loans, the number of outstanding conventional ARM loans is smaller. This is significant because the number of outstanding loans is the base upon which delinquency rates are calculated. Therefore, a distorted picture can be created if only a small number of ARM loans actually become delinquent.

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5. Other Housing Related Loans Delinquency rates for conventional mobile homes also increased substantially from that of the previous quarter. The average delinquency rate rose from 2.28 to 2.60 percent. (Current delinquency data on HUD Title I loans is not available.) Delinquency rates for home equity loans grew from 1.57 to 1.74 percent over the same period (see table 7).

B. Foreclosures Initiated

Table A shows the proportion of mortgage loans for which foreclosure action was initiated. Third quarter of 1984 figures indicated that the number of loans in this category increased for all loan types.

TABLE - A
Percent of Loans for which Foreclosures Initiated

Period	FHA - Insured	VA - Guaranteed	Conventional
1983			
Q I	.27	.25	.15
Q II	.28	.25	.15
Q III	.24	.22	.15
Q IV	.25	.25	.17
1984			
Q I	.24	.25	.14
Q II	.25	.23	.15
Q III	.28	.25	.18

Source Mortgage Bankers Association

C. Loans in Foreclosure

As shown in Table B, the proportion of loans in foreclosure (foreclosure action started during the quarter but not yet completed) was parallel to that of the upward movement in delinquency experience during the third quarter of 1984. These rates were up .09 percentage points for FHA, while rates for VA and conventional loans climbed .04 percentage points.

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TABLE - B
Percent Of Loans In Foreclosure

Period	FHA - Insured	VA - Guaranteed	Conventional
1983			
Q I	.92%	.80%	.44%
Q II	.84	.74	.42
Q III	.72	.75	.44
Q IV	.84	.76	.46
1984			
Q I	.86	.79	.45
Q II	.80	.73	.42
Q III	.89	.77	.46

Source: Mortgage Bankers Association

C. Foreclosures Completed

The increased rates of delinquent loans for which foreclosure action was initiated, and of loans in foreclosure had not yet been reflected in statistics relating to foreclosures completed. During the third quarter of 1984, the proportion of loans foreclosed (loans on properties to which title is acquired by the mortgagee or on properties to which title is transferred from the mortgagor to FHA and VA as a result of foreclosure action or by deed in lieu of foreclosure) edged down from levels reached in the second quarter of 1984. As shown in Table C, the percent of FHA loans with foreclosure completed dropped from .05 to .03 percentage points, and for VA loans from .03 to .02 percentage points. Foreclosure rates for conventional loans abated from .02 to .01 percentage points.

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Table - C
Percent of Loans with Foreclosures Completed

Period	FHA - Insured	VA - Guaranteed	Conventional
1983			
Q I	.05	.02	.03
Q II	.06	.03	.02
Q III	.05	.03	.02
Q IV	.07	.03	.03
1984			
Q I	.05	.03	.02
Q II	.05	.03	.02
Q III	.03	.02	.01

Source: National Council of Savings Institutions.

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Table 1

Rate of Delinquencies of 60 Days and 90 Days or More for FHA-Insured Loans on 1-4 Family Homes (Including Loans in Foreclosure)

Period	60 Days or More					90 Days or More				
	MBA	FHA	MBA	MBAA	FHA	MBA	FHA	MBAA	MBAA	FHA
1975 High	2.38	(1.78)		1.27						
Low	2.04	(1.72)		1.17		1.37	(1.21)		.78	
1976 High	2.19	(2.07)		1.37		1.15	(.97)		.72	
Low	1.94	(1.69)		1.18		1.32	(1.13)		.60	
1977 High	2.35	(2.02)		1.45		1.06	(.93)		.73	
Low	2.03	(1.82)		1.21		1.29	(1.17)		.53	
1978 High	2.23	(1.98)	2.30	1.35		1.16	(1.04)		.66	
Low	1.98	(1.77)	2.30	1.19		1.21	(1.12)	1.32	1.01	
1979 High	2.31	(2.05)	2.49	1.38	2.61	1.11	(.99)	1.21	.85	
Low	1.89	(1.72)	2.06	1.27	1.96	1.19	(1.04)	1.22	.98	.94
1980 High	2.62	(2.47)	2.73	1.68	2.63	1.03	(.94)	1.04	.87	.77
Low	2.13	(2.05)	2.37	1.37	2.15	1.40	(1.35)	1.38	1.04	1.11
1981 High	2.67	(2.52)	2.98	1.69	2.68	1.14	(1.10)	1.29	.91	.86
Low	2.33	(2.24)	2.58	1.38	2.21	1.47	(1.45)	1.78	1.03	1.34
1982 High	2.31	(2.17)	2.59	1.45	2.49	1.29	(1.27)	1.37	.97	.92
Low	2.71	(2.60)	2.94	1.58	2.36	2.03	(1.96)	2.14	.89	1.36
1983 High	3.27	(3.15)	3.73	1.64	2.57	1.39	(1.34)	1.69	.88	1.10
Low	2.63	(2.74)	3.21	1.38	2.43	2.02	(1.98)	2.36	.99	1.29
						1.76	(1.73)	2.00	.86	1.25
1979										
March	2.00	(1.78)	2.28	-	2.27	-				
June	1.89	(1.72)	2.06	1.27	1.96	2.04	(2.04)	1.89	(.97)	1.22
September	2.12	(1.91)	2.25	-	2.11	1.20	(2.90)	1.03	(.94)	1.04
December	2.31	(2.05)	2.49	1.38	2.61	1.22	(2.99)	1.10	(.95)	1.11
									(1.04)	1.30
1980										
March	2.13	(2.08)	2.37	-	2.15	2.92	(2.72)	1.34	(1.10)	1.29
June	2.15	(2.07)	2.40	1.37	2.34	2.63	(2.65)	1.15	(1.11)	1.10
September	2.65	(2.31)	2.64	-	2.35	3.25	(3.06)	1.29	(1.24)	1.33
December	2.62	(2.47)	2.73	1.68	2.63	3.38	(3.09)	1.40	(1.35)	1.38
1981										
March	2.54	(2.45)	2.98	-	2.64	3.10	(2.97)	1.47	(1.45)	1.78
June	2.33	(2.24)	2.59	1.38	2.21	2.94	(2.80)	1.29	(1.27)	1.37
September	2.61	(2.52)	2.77	-	2.63	3.27	(3.13)	1.41	(1.38)	1.43
December	2.67	(2.43)	3.00	1.69	2.68	3.51	(3.36)	1.47	(1.40)	1.60
1982										
March	2.71	(2.62)	2.95	-	2.39	3.43	(3.28)	1.63	(1.60)	1.71
June	2.72	(2.60)	2.94	1.58	2.36	3.39	(3.25)	1.59	(1.56)	1.69
September	3.11	(3.04)	3.38	-	2.69	3.85	(3.69)	1.84	(1.81)	1.93
December	3.31	(3.17)	3.59	1.65	2.65	4.07	(3.90)	2.03	(1.96)	2.14
1983										
March	3.08	(3.00)	3.44	-	2.57	4.08	(3.89)	1.96	(1.92)	2.15
June	2.83	(2.74)	3.21	1.38	2.43	4.11	(3.43)	1.76	(1.73)	2.00
September	3.08	(2.99)	3.68	-	NA	4.43	(4.30)	1.91	(1.89)	2.18
December	3.27	(3.15)	3.73	1.64	NA	4.12	(3.98)	2.02	(1.98)	2.36
1984										
March	3.08	(3.03)	3.30	-	NA	3.84	(3.72)	1.98	(1.97)	2.13
June	2.86	(2.73)	3.07	-	NA	3.66	(3.38)	1.79	(1.76)	2.03
September	3.32	(3.22)	3.33		NA	3.90	(3.79)	2.06	(2.03)	2.12

a/ The MBA and MBAA series were computed to exclude the high risk FHA Sections 235 and 237 programs

Sources: Mortgage Bankers Association of America, HUD, Federal Home Loan Mortgage Corporation, American Council of Life Insurance, National Association of Mutual Savings Banks, and Federal National Mortgage Association

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Table 2

Rate of Delinquencies of 60 Days and 90 Days or More
for VA-guaranteed Loans on 1-4 Family Homes
(including loans in foreclosure)

Period	60 Days or More				90 Days or More				
	MBA	MBAA	FHLBC	FNMA	MBA	MBAA	FHLBC	FNMA	VA
1975 High	1.70	1.07			.88	.54			1.26
Low	1.44	.96			.78	.51			1.13
1976 High	1.86	1.03			.99	.70			1.32
Low	1.54	.91			.81	.57			1.12
1977 High	1.78	1.08			1.00	.69			1.35
Low	1.61	.95			.89	.59			1.17
1978 High	1.74	1.08			.93	.71			1.27
Low	1.71	.86			.83	.62			1.16
1979 High	2.02	1.37	1.55	3.75	1.06	.74	.86	1.93	1.28
Low	1.54	1.22	1.37	2.38	.79	.66	.51	1.39	1.11
1980 High	2.38	1.28	1.68	3.81	1.24	.74	.72	1.60	1.55
Low	1.84	1.06	1.32	2.42	.96	.66	.80	1.32	1.29
1981 High	2.39	1.36	1.92	2.99	1.35	.75	.70	1.79	1.71
Low	2.02	1.07	1.38	2.50	1.15	.68	.55	1.51	1.52
1982 High	2.91	1.25	1.78	3.50	1.76	.74	.83	2.34	2.08
Low	2.37	1.22	1.46	2.90	1.42	.65	.73	1.87	1.83
1983 High	2.92	1.24	1.72	3.04	1.87	.81	.86	2.44	2.28
Low	2.50	1.21	1.58	3.67	1.56	.67	.80	2.06	2.14
1979									
March	1.62	-	1.34	-	.96	.69	.53	-	1.28
June	1.54	1.27	1.37	2.38	.79	.66	.51	1.39	1.11
September	1.80	-	1.44	2.75	.88	.69	.56	1.53	1.14
December	2.02	1.32	1.55	2.74	1.06	.74	.86	1.49	1.19
1980									
March	1.99	-	1.42	2.54	1.04	.71	.61	1.46	1.36
June	1.84	1.06	1.32	2.42	.96	.66	.50	1.32	1.29
September	2.11	-	1.64	2.81	1.10	.69	.64	1.57	1.40
December	2.38	1.28	1.68	2.79	1.24	.74	.72	1.60	1.55
1981									
March	2.25	-	1.69	2.78	1.32	.75	.64	1.63	1.68
June	2.02	1.07	1.38	2.50	1.15	.68	.55	1.51	1.52
September	2.25	-	1.58	2.78	1.23	.71	.63	1.61	1.54
December	2.39	1.36	1.86	2.99	1.35	.75	.70	1.79	1.71
1982									
March	2.37	-	1.84	2.99	1.42	.71	.74	1.95	-
June	2.37	1.22	1.46	2.90	1.42	.65	.75	1.87	1.83
September	2.68	-	1.53	3.27	1.61	.69	.73	2.09	1.93
December	2.91	1.25	1.76	3.50	1.76	.74	.83	2.34	2.09
1983									
March	2.73	-	1.72	3.48	1.72	.73	.86	2.44	2.28
June	2.50	1.21	1.58	3.04	1.56	.67	.80	2.06	2.14
September	2.75	-	NA	3.67	1.72	.73	NA	2.34	2.14
December	2.92	1.24	NA	3.87	1.87	.81	NA	2.40	2.24
1984									
March	2.81	-	NA	3.31	1.84	.85	NA	2.31	2.32
June	2.51	-	NA	3.00	1.63	.82	NA	2.11	2.23
September	2.92	-	NA	3.35	1.81	.72	NA	2.30	2.37

Sources: Veterans Administration, Mortgage Bankers Association of America, American Council of Life Insurance, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and National Association of Mutual Savings Banks

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Table 3

Rate of Delinquencies of 60 Days and 90 Days or More
for Conventional Loans on 1-4 Family Homes
(including loans in foreclosure)

Period	60 Days or More					90 Days or More			
	MBA	ACLI	USL	FHLBC	FNMA	MABSB	MBA	FHLBC	FNMA
1975 High	1.03	.69	1.02			.70	.53		
Low	.88	.67	.94			.59	.46		
1976 High	1.04	.81	.95			.71	.53		
Low	.96	.74	.89			.64	.51		
1977 High	.98	.84	.95			.66	.51		
Low	.91	.70	.74			.63	.45		
1978 High	.94	.72	.89			.63	.47		
Low	.80	.65	.70			.58	.40		
1979 High	.84	.67	.78	.73	1.07	.56	.37	.31	.60
Low	.73	.61	.63	.54	.89	.53	.35	.23	.54
1980 High	1.08	.65	.89	.95	1.38	.59	.52	.44	.94
Low	.86	.56	.69	.73	1.10	.51	.40	.31	.71
1981 High	1.22	.65	1.06	1.17	1.92	.57	.61	.61	1.03
Low	.99	.51	.86	.97	1.28	.55	.51	.49	.88
1982 High	1.64	.76	1.28	1.07	2.06	.62	.95	.60	1.38
Low	1.29	.73	1.09	.92	1.62	.55	.70	.51	.96
1983 High	1.84	.82	1.37	.90	2.54	.73	1.11	.60	1.72
Low	1.56	.76	1.28	.66	2.19	.58	.96	.37	1.52
1979									
March	.79	-	.73	.59	-	.54	.37	.24	-
June	.72	.67	.63	.54	.89	.53	.35	.23	.54
September	.79	-	.74	.66	1.04	.56	.36	.27	.60
December	.84	.61	.76	.73	1.07	.56	.37	.31	.56
1980									
March	.89	-	.73	.73	1.17	.52	.41	.31	.71
June	.86	.56	.76	.78	1.10	.51	.40	.35	.71
September	.96	-	.83	.87	1.32	.52	.44	.39	.80
December	1.08	.65	.86	.95	1.38	.59	.52	.44	.94
1981									
March	.99	-	.91	.99	1.38	.57	.51	.49	1.01
June	1.02	.51	.86	.97	1.28	.55	.52	.49	.88
September	1.15	-	.99	1.09	1.62	.55	.56	.56	1.03
December	1.22	.65	1.06	1.17	1.92	.57	.61	.61	.96
1982									
March	1.29	-	1 11	1.07	1.65	.55	.70	.60	.96
June	1.34	.73	1.09	.92	1.62	.56	.75	.51	.99
September	1.53	-	1.21	.97	1.83	.59	.86	.53	1.18
December	1.64	.77	1.36	.92	2.06	.62	.95	.52	1.38
1983									
March	1.84	-	1.36	.90	2.34	.62	1.11	.51	1.54
June	1.56	.76	1.28	.76	2.19	.58	.96	.44	1.52
September	1.59	-	1.28	.66	2.54	.64	.97	.37	1.63
December	1.72	.82	1.37	.80	2.49	.73	1.04	.60	1.72
1984									
March	1.72	-	1.33	.76	2.43	.81	1.07	.46	1.72
June	1.53	-	1.28	.69	2.39	.79	.96	.42	1.64
September	1.73	-	1.41	.75	2.65	.66	1.05	.43	1.84

Sources: Mortgage Bankers Association, American Council of Life Insurance, U.S. League of Savings Association, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and National Association of Mutual Savings Banks

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Table 6

Federal Home Loan Bank Board
Delinquency Ratio a/

1974	
December	1.25%
1975	
March	1.41
June	1.45
September	1.53
December	1.49
1976	
March	-
June	-
September	1.35
December	1.26
1977	
March	1.29
June	1.12
September	1.09
December	1.04
1978	
March	1.00
June	.93
September	.94
December	.89
1979	
March	.91
June	.84
September	.88
December	.90
1980	
March	.95
June	1.01
September	1.11
December	1.16
1981	
March	1.22
June	1.19
September	1.36
December	1.48
1982	
March	1.66
June	1.78
September	2.05
December	2.21
1983	
March	2.28
June	2.15
September	2.17
December	2.13
1984	
March	2.13
June	2.03
September	2.15

a/ Dollar amount of mortgage loans and contracts delinquent 30 days or more as a percent of total mortgage and contracts held at the end of the month.

p/ Preliminary

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Table 5

Delinquency Rates for Loans on 1-4 Family Homes

Time	Conventional a/	FHA b/	VA c/
1975 High	1.02%	2.60%	1.70%
Low	.94	2.20	1.44
1976 High	.95	2.40	1.86
Low	.89	2.10	1.54
1977 High	.85	2.40	1.78
Low	.74	2.20	1.61
1978 High	.79	2.59	1.74
Low	.72	2.30	1.71
1979 High	.76	2.49	2.02
Low	.63	2.06	1.54
1980 High	.86	2.73	2.28
Low	.73	2.37	1.84
1981 High	1.06	3.00	2.39
Low	.86	2.39	2.02
1982 High	1.26	3.59	2.91
Low	1.09	2.94	2.37
1983 High	1.37	3.73	2.92
Low	1.28	3.21	2.50
1979			
March	.73	2.28	1.62
June	.63	2.06	1.54
September	.74	2.35	1.80
December	.76	2.49	2.02
1980			
March	.73	2.37	1.98
June	.76	2.40	1.84
September	.83	2.64	2.11
December	.86	2.73	2.28
1981			
March	.91	2.98	2.25
June	.86	2.39	2.02
September	.99	2.77	2.25
December	1.06	3.00	2.39
1982			
March	1.11	2.95	2.37
June	1.09	2.94	2.37
September	1.21	3.38	2.68
December	1.26	3.59	2.91
1983			
March	1.36	3.44	2.73
June	1.28	3.21	2.50
September	1.28	3.48	2.75
December	1.37	3.73	2.92
1984			
March	1.33	3.30	2.82
June	1.28	3.07	2.51
September	1.41	3.33	2.92

a/ This series published by the U.S. League of Savings Institutions includes all types of loans. However, it is used to represent conventional loans because in 1980 conventional home loans accounted for over 85% of total mortgage loans held by SALs belonging to the USLSA.

b/ FHA data prior to 1978 was unavailable from HUD. Therefore, a delinquency rate was derived using FHA MBA data.

c/ Mortgage Bankers Association of America

Sources: U.S. League of Savings Institutions, HUD and

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Table 6

FHA GPM and Conventional ARM Loans Delinquency Rates

	FHA-Section 245 Loans				Conventional Loans a/			
	MBA Series		FNMA Series		60-day		90-day	
	60-day	90-day	60-day	90-day	ARM	FRM b/	ARM	FRM
1979 December	1.37	.66						
1980 March	1.55	.76						
June	1.73	.99						
September	2.06	1.02						
December	2.19	1.15						
1981 March	2.24	1.26						
June	2.12	1.16						
September	2.27	1.21	2.76	1.61				
December	2.60	1.48	3.07	1.85				
1982 March	2.66	1.57	3.29	2.15				
June	2.73	1.68	3.13	2.07				
September	3.18	1.96	3.75	2.48				
December	3.36	2.13	4.11	2.81				
1983 March	3.46	2.26	4.22	3.01	2.72	2.20	1.73	1.52
June	3.26	2.18	3.97	2.87	2.81	2.14	1.94	1.49
September	3.50	2.35	5.43	3.01	3.17	2.47	2.16	1.57
December	3.56	2.41	4.39	3.12	3.56	2.35	2.50	1.62
1984 March	3.57	2.46	4.26	3.11	3.63	2.20	2.58	1.60
June	3.88	2.12	3.79	2.83	3.68	2.10	2.70	1.52
September	3.69	2.40	3.97	2.80	4.61	2.34	3.48	1.58

a/ The Federal National Mortgage Association
b/ Fixed Rate Mortgages

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Table 7

Delinquency Rates on Property Improvement and Mobile Home Loans 1/

Period 2/		Mobile Home Loans	FHA Title I	Property Improvement Loans	Home Equity and Second Mortgage Loans
1970		2.39	2.28	1.78	
1971		2.09	2.25	1.57	
1972		2.23	2.17	1.60	
1973		2.86	2.31	1.55	
1974		3.81	3.77	1.98	
1975		3.83	3.94	1.97	
1976		3.46	3.80	1.79	
1977		3.52	3.52	1.85	
1978		3.34	4.01	1.84	
1979	High	3.77	4.25	2.09	
	Low	2.83	3.62	1.64	
1980	High	3.49	4.54	2.18	
	Low	2.67	3.83	1.70	
1981	High	3.76	4.78	2.18	
	Low	2.65	3.55	1.72	
1982	High	3.11	3.91	2.13	
	Low	2.53	3.41	1.77	
1983	High	2.89	3.35	1.95	
	Low	2.67	3.03	1.70	
1980					
March		2.74	3.93	1.83	
June		2.94	3.97	1.91	
September		3.09	4.17	2.14	
December		3.49	4.51	2.18	
1981					
March		2.67	3.55	2.04	
June		2.72	4.42	1.80	
September		2.76	4.78	1.96	
December		3.76	4.40	2.18	
1982					
March		3.56	3.91	1.91	
June		2.53	3.53	1.77	
September		2.88	3.41	1.98	
December		3.11	3.82	2.13	
1983					
March		2.67	3.35	1.95	
June		2.45	3.03	1.70	
September		2.54	3.29	1.75	
December		2.89	NA	NA	1.94
1984					
March		2.19	NA	NA	1.94
June		2.38	NA	NA	1.57
September		2.60	NA	NA	1.74

1/ Number of loans delinquent as a percentage of total number of loans outstanding. Delinquent loan is one having an installment past due for 30 days or more.

2/ Based on yearly averages

Sources: American Bankers Association

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Table 8

Annual Foreclosure Rates By Type of Loan

Date	FHA a/ Insured All	FHA a/ Insured 203	VA b/ Guaranteed	Conventional FHLBB c/	Conventional BANKER d/	Conventional FNMA e/
1965				.31		
1966				.32	.12	
1967			.74	.45	.11	
1968			.60	.29	.09	
1969	.70		.44	.17	.06	
1970	.60		.40	.14	.05	
1971	.72	.53	.41	.12	.04	
1972	.99	.59	.41	.10	.07	
1973	1.03	.57	.46	.10	.09	
1974	1.04	.44	NA	.11	.08	
1975	.87	.41	.50	.14	.11	
1976	.72	.37	.46	.14	.12	
1977	.58	.35	.45	.11	.12	
1978	.53	.34	.38	.09	.11	
1979	.43	.29	.32	.11	.09	
1980	.33	.24	.29	.13	.08	.10
1981	.31	.26	.35	.18	.09	.14
1982	.48	.34	.45	.33	.10	.27
1983	.45	.37	.37	.40	.10	.53
1983						
March	.46	.38	.36	.38	.12	-
June	.57	.46	.36	.38	.08	-
Sept	.51	.43	.36	.44	.08	-
Dec.	.32	.18	.40	.44	.12	-
1984						
March	.48	.36	.40		.08	
June	.56	.47	.36		.08	
Sept	.43	.34	.37		.04	

a/ These figures were derived on fiscal year basis from the FHA data accounting system, U.S. Department of Housing and Urban Development, Washington, DC. Beginning with 1983, the figures are on a calendar year basis.

b/ These figures were derived from the "VA-Guaranteed Highlights," the Veterans Administration, Washington, DC.

c/ These figures were derived from the semi-annual "Statement of Condition," the Federal Home Loan Bank Board, Washington, DC. This series has been discontinued beginning with the new quarterly Statement of Condition report of March 1984.

d/ The National Council of Savings Institutions, "Economic Update" Washington, DC.

e/ The Federal National Mortgage Association, Washington, DC.

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Table 9

Delinquency Rates for Conventional Adjustable Rate and Fixed Rate Mortgage Loans a/

	60-Day Series				90-Day Series			
	FNMA		FHLMC		FNMA		FHLMC	
Date	Adj. Rate	Fixed Rate	Adj. Rate	Fixed Rate	Adj. Rate	Fixed Rate	Adj. Rate	Fixed Rate
1983								
January								
February								
March	2.72	2.20		.90	1.73	1.52		.51
April								
May								
June	2.81	2.14		.76	1.94	1.49		.44
July								
August								
September	3.17	2.47	1.53	.66	2.16	1.57	1.10	.37
October			1.47	.78			1.10	.43
November			.96	.74			.67	.41
December	3.56	2.35	.73	.80	2.50	1.62	.50	.46
1984								
January			.83	.78			.48	.46
February			.97	.81			.63	.49
March	3.63	2.26	.82	.76	2.58	1.60	.55	.46
April			.93	.73			.62	.43
May			.95	.71			.59	.42
June	3.68	2.10	.90	.69	2.70	1.52	.57	.42
July			.97	.71			.61	.42
August			1.02	.70			.62	.42
September	4.41	2.34	1.21	.75	3.48	1.58	.73	.43
October			1.59	.72			.92	.43
November			1.77	.72			1.06	.43

a/ Delinquency rates are defined as the ratio of the number of 1-4 family residential mortgage loans with payments of 60 and 90 days past due to the total of such loans held by financial institutions.

Sources: The Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

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cc:

EP Hale	9208	
EPF Martin	9206	
EPFP	Mitchell	9132
EPFP	Dickie	9132
EPFP	Hargroves	9132
EPFP	Wilcox	9132
EPFP	Keyser	9132
EPP Cooley	9220	
EPAI	Shaw	9245
ED Lowe	9106	
ES Nistler	9282	
ES Allison	9146	
EM DeBartolomeis		6106
U Abrams	10100	
N Karpe	6100	
N Gasper	6100	
N Lasko	6100	
NXP Anderson	6206	
NS Yates	6214	
AB Kliman	10172	
G Knapp	10214	
GF Maxim	9252	
LD Green	10120	

Jill Oosley	Department of Treasury
Robert O'Toole	Veterans Administration
Robert Fisher	Federal Reserve Board
Jim Kichline	Federal Reserve Board
Robert Villanueva	Council of Economic Advisers
Kenneth Ryder	Office of Management and Budget
Allen Rhinesmith	Office of Management and Budget
Morton Schussheim	Library of Congress
Barbara Miles	Library of Congress
Robert Kahn	Federal National Mortgage Association
Richard Pickering	Federal Home Loan Bank Board
Donald Hovde	Federal Home Loan Bank Board
Shannon Fairbanks	Federal Home Loan Bank Board
Eugene McAllister	White House
Maurice Criz	Census Bureau
John Valencia	House Subcommittee (Banking)

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Dr. WOMACK. I would not want to imply that anything is bad or good, but simply an indication of what we received back, that 44 percent had no real estate debt, and 39 percent had no operating debt.

I am paraphrasing the information as we received it, and I don't want to give a connotation one way or the other. The most significant point on this table relative to other research that has been done and other surveys that have been done, is the 10 percent that were not current, and taking that times the 61 percent gives a number similar to what other surveys have found.

That is the most significant and only point that I can make.

Mr. IRELAND. My problem is, you are saying it is significant. Is it significantly high or significantly low, and in comparison to what?

Just saying "significant" doesn't tell me much. Is it significantly good or bad, in your judgment?

Dr. WOMACK. This is the third part of the study, that question, it led to the third part of the study, so let me proceed.

The other kinds of information associated with the study is that we received information according to farm size, left column; gross sales in thousands of dollars, and the numbers within the table are debt-to-asset ratios, and a debt-to-asset ratio in this case, in the first red area, 43 would imply $43 of debt per $100 of assets.

In general, a point where farmers begin to reach financial problems is the debt-to-asset ratio of 40 or greater.

However, there are farmers who have 40 or greater who may have off-farm income who could sustain themselves a long time. Stress is beginning to show itself, and in the crop sector, beginning at $50,000, up to a $500,000 farm, we didn't find that number as large above 500.

In the beef sector, the larger farms, 250,000 up to 500,000 and greater show some financial stress.

Pork, the largest numbers of any of the group with the highest overall average, with a debt-to-asset ratio of 48 percent.

The dairy industry shows less stress, and only in the smaller categories, and the poultry industry, we had a very small return on this, but we are showing stress and 250,000, and above 500,000.

Now, in terms of where the debt is located, and where the most severe stress is as a result of this survey, we find that the central and west regions show substantially more stress than other regions, although all regions are showing stress.

In the south, 500 to 100,000 size farm, they had a debt-asset above 40. Notice, however, that 100 to 250,000 were also very close and 250 to 500,000 were very close.

In the east, debt-to-asset greatest in the 250 to 500,000. The U.S. average, 250,000 to 500,000, greatest pressure.

Now, in order to summarize the first part of the study, this is one of the benchmark sets of numbers that we use to apply to the Wharton Econometrics study, table 1 from the report on page 13.

This is another indication of distribution of debt. For example, on the left-hand column, zero to 10 percent implies all farms that had very little or no debt.

We found in this survey that 39.5 percent of the farms had debt-to-asset zero to 10 percent, and they contain only about 3 percent of the total debt.

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The next group of farms, 10 to 40, debt-to-asset ratio, contains about 30 percent of the farmers, they hold 34 percent of the debt, so we have in the first two groups approximately 70 percent of the farmers with about 37 percent of the debt, so the problem that this table begins to identify is that a small number of farmers, about 31 percent, hold a substantially larger proportion of the debt. In this case, we would have a debt-to-asset ratio at 40 and above, about 31 percent of the farmers with 17.5 percent in the 40 to 70, and 13.6 percent in 70 and above categories. These farmers, 30 percent hold 63 percent of the national debt, so again, it begins to reflect that an awful lot of our farmers are in fairly good shape.

However, we have a small number of about 30 percent that are under financial stress, and the concentration of debt in those farmers' hands is fairly large.

The second table associated with this is another way of looking at the distribution of debt. Across the top of the table, we indicate the age of the individuals, and we have individual categories below age 35, 35 to 44, 45 to 54, and so forth.

Central region, farmers, age less than 35, had an average debt-to-asset ratio of 52.1 percent. It drops down in age 45 to 54 to 45.4, and average for the region, all ages, is 34.3.

The central region has the most stress, followed by the west, and then the east and the south being at about the same level, debt-to-asset ratio around 20 percent, with a national debt-to-asset ratio of around 26 percent, which number is fairly close to the USDA information on total debt assets in the United States.

The debt seems to show itself greater in the central region, and it is more prevalent in the younger age groups.

The second part of the study is associated with a projection of net farm income. It was necessary in this analysis to look at the potential for farm income in the future, at least in the next 5 years or during the 1985 farm bill, and in order to evaluate the number of farms that may come under pressure and to protect the amount of debt that may not be serviced.

For this reason, we evaluated two different farm program designs, one was evaluated in March 1985, and another design evaluated in July 1985.

The upper design, the VLRP design or the marketing loan option, has been introduced in various bills, both House and Senate side. We took that farm program design and projected through 1990 direct Government payment and corresponding net farm income.

We also estimated the impacts of the AAA 1985 program announced by the administration in March 1985. The significant points associated is that direct Government payments for the variable loan, marketing-oriented design, would move from about $9.3 billion down to $6 billion at the end of the period.

This is direct Government payments. This wouldn't be the total cost of the program. The total cost of the program in 1985, for example, would be about double the $5.9 billion or around $12 billion.

Since that contains the dairy program, tobacco, and others, this reflects the cost to the major crops. The net farm income associated with that design ranges between $23.7 billion in 1985, up to around $27.4 in 1987, back down to about $22 billion in 1990.

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The low income, net farm income scenario that has been used, would be associated with the administration's program that drops the target prices and loan rates immediately indicating that the net farm income would drop from $24.6 billion in 1985 to a low of about $13.5 billion in 1988, and begin to move back up.

We have published several reports associated with this, and have more details on that information.

Now, the third stage of the analysis was conducted by Dr. Robert Jolly in Iowa State University and this is more associated with the questions of Congressman Ireland.

In order to take the next step, Dr. Jolly developed typical farm budgets for typical farms associated with the surveys that we had received.

Then he took the net farm income estimates associated with our model, the current interest rate estimates, exchange rates, the cost of inputs and projected the balance sheet for these farms over the next 5 years to the term, the amount of debt that could be serviced, or the number of farms that would remain in farming.

He took the survey in effect, and established a balance sheet that in our opinion reflected the financial position of those farms associated with the numbers we got back from the survey.

In order to estimate the operators that would be selling out, this was obtained by assuming that operators were out of business when they have a zero or negative equity position after all of their assets are liquidated to require existing debt.

Debt charged off reflects remaining after liquidating all assets of these farmers. These charge losses that must be absorbed by agricultural lenders and other creditors. In this table, he indicates that approximately one-half of the outstanding farm debt cannot be fully serviced at current income and rates of interest.

This figure increases to two-thirds in the lower income associated with the AAA, 1985 program.

Also, it indicates that about $1.12 billion in interest cannot be serviced, and about $3.68 billion in principal for a total of $4.8 billion in principal and interest under the current farm program cannot be serviced on an annual basis. If we go immediately to something with less support like the AAA program, that probably would increase to $8.8 billion.

The first debt that would have to be contended with would be associated with the very bottom row, which indicates that the percent of debt with interest not fully paid would be about 22 percent since there is $210 billion worth of debt, this would be $45 billion worth of debt for which the interest could not be paid, and would require more immediate attention.

If we go to the lower income case, that moves up to $95 billion or 44.5 percent. Another indicator from table 5, page 17 of the study, is that 7 to 17 percent of commercial agricultural assets in the United States will need to be liquidated in order to service the remaining outstanding debt.

A liquidation rate three to four times the volume historically growing through the farm asset market, and it is more likely that we would see an income either in the current or lower level, the improved income would be associated with a net farm income from a farm program design giving back $30 to $35 billion a year.

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Under the current and lower income, it would range between 7 and 17 percent.

For the more likely economic conditions evaluated, approximately 48 percent of the existing farm debt could be discharged, representing a loss of $10 to $20 billion to all agricultural creditors. This information was handed to Wharton Econometrics. We asked them to evaluate the consequences of this amount of debt moving through the general economy, the magnitude is about three to four times the level that the financial institutions in agriculture are normally faced with.

The first analysis associated with this particular piece of work is indicated in table 6 on page 18. The most likely scenario is medium loss pattern, or short-term, which would be the first green set of numbers, first row, the second row in the table, the green set, and the third row in the table would be what we consider a soft landing, and each of those are in the magnitude of $20 to $25 billion.

The medium loss pattern is a pattern where we would expect about $25 billion to flow through the economy with $2 billion in 1985, $4 billion in 1986, $16.5 billion in 1987, and $2.5 billion in 1988.

That would indicate that 1987 would be the highest impact year. If this amount of debt is discharged into the general economy without any outside influence, Wharton Econometrics projects that the interest rate pattern would be at about 1.25 points above the base projected. That would occur in 1987.

If we get 10 points increase in 1985, 25 in 1986, a point and a quarter in 1987, and three-quarters of a point in 1988. In the soft landing case, if the debt is about $20 billion, we are projecting that that would come into the market at about $2 billion in 1985, $4 billion in 1986, $12 billion in 1987 and $2 billion in 1988, resulting in the highest rate of increase in interest rate at about three-quarters of a percent in 1987.

Additional factors that we have summarized in this study that is given in more detail is some indication of what may occur in the Federal debt, the real GNP and the amount of employment, should this amount of debt move into the general economy.

The Federal debt as estimated under the market assistance would be the $25 billion situation. Wharton estimated Federal debt would increase $21.5 billion by 1993 as a result of this debt write-off, under the $20 billion scenario about 13.7.

If we went to the Triple A Program the administration proposed in March 1985, it is estimated that the Federal debt would increase by $42.2 billion.

If we had a program designed that resulted in $10 billion worth of debt flowing through the system, we would expect very minor impact at about $5.1 billion. The real GNP decreases, under the marketing assistance, the GNP would be down about $49 billion, total between 1985 to 1993 and under the $20 billion scenario, $31 billion.

The numbers would be an average of about $8 to $10 billion a year for debt increase and about $46 billion a year decline in GNP over base. The peak year, 1989, employment is estimated to decline between 275,000 to 175,000 jobs in the general economy.

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We say in summary, these numbers suggest a tradeoff between the cost of income maintenance and a financial assistance program, and the consequences for the economy of ignoring one or both of these preempted measures. It would be prudent to consider early comprehensive measures to correct the farm financial crisis rather than to attack it on a piecemeal or crisis reaction basis.

Clearly, loan losses at the high end of those evaluated will not occur because countervailing action will be taken. The question is whether these actions can be less costly if they are coordinated through administrative initiatives, not developed on a reactionary basis.

We would make the following statements. First, that from this survey it appears that farms with debt to asset ratios of 40 percent and over, owed about $140 billion of the $212 billion total U.S. farm debt. Farms with 40 percent or larger debt to asset ratio are likely to experience financial problems.

Second, the farm debt situation is most serious for young farmers residing in the central regions of the United States, and the average debt to asset ratio is 20 points above the national average.

Third, the surplus capacity situation of the United States agriculture makes it unlikely that net farm income can be increased beyond $20 to $25 billion without high Government costs. Over the period of 1987 to 1990, direct Government costs of $6 to $7 billion would be required to hold these farm income levels.

Fourth, annual principal and interest shortfalls on loan losses with net farm income in the $20 to $25 billion range and continue to higher real interest rates are projected at about $4 to $10 billion.

Fifth, liquidation of 10 to 15 percent of farm assets would be required to service the remaining debt; a rate of liquidation three to four times that historically flowing through farm access markets.

Six, under the most optimistic farm program being considered, average net farm income over the next 5 years will not rise above current levels. If Government support programs are removed, net farm income would likely drop by 40 percent during the subsequent 3 years.

If current farm income conditions are maintained with no financial assistance measures or if financial programs are offered by commodity support programs are elevated, the loan losses could be in the range of $20 to $25 billion.

Finally, loan losses of $20 to $25 billion are expected to increase short term interest rates by 75 to 125 basis points, reduce total employment by 175,000 to 275,000 jobs, reduce total GNP by $30 to $50 billion over 8 years, and increase the Federal debt by $14 to $21 billion by 1993.

Tomorrow afternoon we plan to have a press conference led by Dr. Laurence Klein, Nobel Laureate in Economics in room EF-100 in the Capitol Building to give more insight into these farm matters and problems.

Mr. SKELTON. Doctor, you have indicated under all the scenarios set forth that industries will be going up as a direct result of distress in agriculture and as an economist, can you tell us in layman's terms what happens to the economy, to small businesses, that depend either directly or indirectly on the agricultural economy, when interest rates go up?

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Dr. WOMACK. The implication from the general economic side is that the financial institutions that hold the loss will be the first impacted, and we might expect higher interest rates to be a result of that position.

In that event, all businesses in the United States would experience this kind of interest increase, including the small businesses, and it very likely would continue putting downward pressure on land prices with more farmers going out of business in our smallest communities, if this pattern prevails, the heaviest and hardest hit is more likely to be the farm equipment dealers.

We could find some residual pressure in the livestock industry.

We may not find so much pressure in the processing or the transportation industry or on food prices. It is very likely with the excess capacity that we have that we would find an adequate food supply but certainly, particular areas, input areas of the United States agricultural industry would be more stressed than others, primarily in the input or heavy equipment industry and in the financial industry, showing itself also with reduced land prices.

Mr. SKELTON. I heard an economist this morning on the ABC television network indicating that in his opinion interest rates are going down and will continue to go down. He was speaking generally, throughout the next several years.

Would you agree with that or is your data aimed at rural America only?

Dr. WOMACK. In general, Mr. Chairman, we use the Wharton econometric forecast and just finished a 10-year evaluation, general economic forecasts, and I am not very optimistic about the debt being reduced and they project the Federal debt growing at about the rate of real GNP, their interest rates remain at 11 to 12 percent.

If their scenario is correct, they are placing a small probability of being able to get the debt down under a program design where the general economy has to provide the——

Mr. SKELTON. Why are the interest rates going down in recent days?

Dr. WOMACK. I am not sure that I can—I am not a general economist. I depend on Wharton to give us that information, but my impression is that the market simply is responding to the money supply which has been somewhat liberal lately. This analysis would suggest that we may begin to find some pressure coming from the agriculture side to complicate that situation.

Mr. SKELTON. Mr. Ireland.

Mr. IRELAND. Thank you, Mr. Chairman.

Interest rates, over the past 4½ years have gone down significantly. What importance do you attach to that in your scenario? You say all indications are that many more people are going to go out of business and that will drive interest rates up.

That is the thesis that you have presented here. How do you relate these two?

Dr. WOMACK. In order to evaluate this particular impact, Congressman Ireland, we asked Wharton to make a 4-year run based on their most likely projections of the general economy which they do continuously.

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Mr. IRELAND. That is the one you reported, they said interest rates would be level or they would increase?

Dr. WOMACK. That is right. Dr. Klein would be a better person to answer this question tomorrow at the meeting. He has more insight into their forecasts than I do. We are users. We run our agriculture models with that information but as I interpret the reason for that is that one of the general indicators in their overall model, interest rates move relative to the growth in the GNP and the growth in the deficit and those are moving at about the same rate.

Interest rates would stay at about the level they are, 11 or 12 percent.

Mr. IRELAND. Then I am having a difficult time with this and the thrust of what you say. You are predicting a dire increase in interest rates and yet you talk about Wharton's econometric analysis that does not have your figures which predict level rates. Which side are you on?

Dr. WOMACK. Let me make my point a little clearer.

The base run for which Wharton ran their analysis was one that included a higher deficit growing at about the same rate as the GNP, interest rates at about 11 percent. When it was impacted with this $20 to $25 billion of additional financial stress, losses going through the financial institutions, then that second scenario came out with higher interest rates.

Mr. IRELAND. You are saying that their normal econometric model predicts no increase. Then you went to them with a set of figures derived from this survey from Farm Journal Magazine and the other professor's idea of what an average, typical farmer was, and you came up with an idea of how much debt would go through the economy and you said, OK, interest rates will go up.

This would indicate that you have one idea of what is going to happen in the farm economy, and Wharton has another idea. So what you are saying is, Wharton School, you are wrong in the part of your equation about farm debt, you are wrong, put our figures in there and tell us what happens.

Dr. WOMACK. That is exactly right.

Mr. IRELAND. Yet, I am hard pressed to understand a foundation of statistics from the Farm Journal Survey, with all these biases in there. Then what worries me is the reaction of policy makers to the so-called hysteria involved that this will happen, yet nobody ever hears of these flaws in the survey.

Dr. WOMACK. That is an inherent problem with any economic evaluation, being a mathematician, I would like to see things more tight than that.

I would say, Congressman, this is simply the first piece of work with whatever flaws it has, and they should be admitted, that goes from ground zero all the way to the general economy with some consequences, and it is the first set of numbers that I have seen that does this.

I hope that it really adds to the debate and that we see more numbers but we were curious about what we would find, even going this route, realizing that we would have a small sample and the base would have a particular leaning. At any rate, we did that because of time, and at the moment, this is the only information we have, and the farm bill is half way into the year of being put

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together, and we still don't have good mixed numbers on this and your question, the validity of these, which should be, and I agree with that.

Mr. IRELAND. Are there any figures for these general areas on what is significant, and what isn't, for the years 1955, 1965, 1975?

Dr. WOMACK. The comparisons that may be useful here, I think, would be relative to what is a crisis situation.

The numbers that I am familiar with, if I am reading your question correctly, is that in general, we expect to have about 1.5 percent of the farms going out of business because of financial problems, and the reason that this econometric model showed any kind of an impact into the general economy, the $10 billion impact was almost unnoticeable, but as it moves above that, it is typical of any economic situation, you put too much pressure on it in a short period of time and everyone reacts and that is what the model did here. We are pushing three to four times the amount of debt through the system than it normally handles, you get that reaction.

What can be concluded from this and given your reservations, we have, too, but what can you conclude?

The parameters—we haven't said the cure, but we are trying to identify the problem, and the next step is what would be the cure. Is it worth the investment of the Government to do anything about it? Would the general population support that?

Once you see a $20 to $25 billion number, one becomes very concerned. If $10 billion goes through the economy there is very little measured impact but not $20, $25 billion. These marginal impacts, the numbers that start becoming important as a bracket could be the interest associated with holding that debt off the market for some period of time.

It is a bracket, a benchmark, and the $20 billion loan loss at 10 percent interest implies $2 billion a year, in order to cushion this blow for some period of time. That might be a benchmark number to start thinking about with regards to this problem.

I would hope this analysis would lead to several scenarios associated with benchmarks that could be applied here, so in my mind, after we finished the project, the $20 to $25 billion is an important number, and it is more than the economy has handled before and has negative consequences for the general economy and up to some point the general economy would be better off if something is done at a particular price, and that some point is probably $4 to $5 billion a year of negative impact on the GNP.

Those things would be more relevant points. One should certainly have the caution that you have, but we hope this does lead to more insight with regard to the problem.

Mr. IRELAND. Thank you.

Mr. SKELTON. Are there other sources, Doctor, or analysts or statisticians who share your scenario of the possibility of the farm loss, the USDA?

Mr. WOMACK. The USDA had the 490 report that came out in February of this year which has shown that the debt is about the same level that we had found. The $20 to $25 billion really is a $40 to $50 billion number because we had assumed that you would be

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able to recover about 50 percent of those assets, and the USDA was coming out with numbers around $50 billion.

Yesterday, they released another report, and my first impression of that report is it confirms the severity of the problem as we picked up in this particular piece of analysis.

Mr. SKELTON. Thank you so much for being with us and sharing your work with us. We are very appreciative and you have made the record for us for this subcommittee, and the full committee to share.

At this point, if there are no objections, Mr. Robinson, the gentleman from Arkansas, would like to have a statement placed in the record.

Without objection.

[Mr. Robinson's prepared statement follows:]

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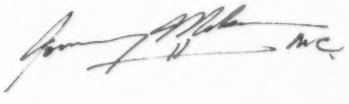
PREPARED STATEMENT OF HON. TOMMY F. ROBINSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS

The plight of the family farmer is very much on the collective congressional mind. This week the Agriculture Committee continues the markup of the 1985 Farm bill. The proceedings have been slow, fraught with contention and the results so far have played to mixed reviews.

Today's hearing is important -- not just for my home state of Arkansas, but also for this country as a whole. We must have a clear picture of the effect the climate of the farm crisis is having on the U.S. economy as a whole. The economy of rural America -- as I see it played out in my district -- is in shambles.

Lonoke County, Arkansas -- dependent on agriculture -- is a small scale example of what is happening on the national level. There, small farmers have called it quits. The businesses that have supported them and extended them credit over the difficult years of the recent past have gone belly up. People are out of work. The tax base has evaporated. Families are finding themselves without recourse and without resources. I see people trying to move from the farm -- and from farm businesses -- to cities that are in some cases ill-equipped to receive them.

I am pleased that the Chairman is conducting this series of hearings. The problem is grave. The solutions need to be well-thought-out. And those solutions are needed soon.



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Mr. SKELTON. Thank you very much.

The subcommittee is adjourned.

[Whereupon, at 3 p.m. the subcommittee adjourned, to reconvene subject to call of the Chair.]

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